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April 30, 2015

Board of Directors  
Housing Authority of the City of Evansville  
500 Court Street  
Evansville, IN 47708

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, 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 Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of Evansville, 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.

We call your attention to Federal Awards Program Audit Findings and Questioned Costs 2013-001 Low Rent Housing Program CFDA 14.850a in the report on page 41 in the Schedule of Findings and Questioned Costs. This finding reports a significant deficiency in the eligibility compliance requirement and is reported in the Independent Auditor's Reports on Compliance for Each Major Program and Internal Control over Compliance Required by OMB Circular A-133. The accompanying Corrective Action Plan is on page 43.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner



**THE HOUSING AUTHORITY OF THE  
CITY OF EVANSVILLE, INDIANA**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

December 31, 2013

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

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*Independent Auditors' Report*

Board of Commissioners  
The Housing Authority of the City of  
Evansville, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities (primary government) and the discretely presented component units of The Housing Authority of the City of Evansville, Indiana (the Authority) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority'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; 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.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Estates Redevelopment Partnership, L.P. and Vision 1505, L.P., which are the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for Lincoln Estates Redevelopment Partnership, L.P. and Vision 1505, L.P., are based solely on the reports of the other auditors. The financial statements of Lincoln Estates Redevelopment Partnership, L.P. and Vision 1505, L.P. were not audited in accordance with *Government Auditing Standards*. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we 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 evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (primary government) and the discretely presented component units of The Housing Authority of the City of Evansville, Indiana as of December 31, 2013, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States.

### ***Emphasis of Matter***

The other auditors' report on the 2013 financial statements of Lincoln Estates Redevelopment Partnership, L.P. included an emphasis-of-matter paragraph describing conditions that raised substantial doubt about its ability to continue as a going concern, as discussed in Note 12 to the financial statements. Our opinions on the financial statements referred to above are not modified with respect to that matter.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4 to 10, as well as the retirement plan schedule of funding progress and employee contributions on page 32, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Other Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards on pages 35-36, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The financial data schedule on pages 45-74 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the Department of Housing and Urban Development, Office of the Inspector General, and is also not a required part of the basic 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 basic financial statements. This 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 or other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 8, 2014

**THE HOUSING AUTHORITY OF THE  
CITY OF EVANSVILLE, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

This section of The Housing Authority of the City of Evansville, Indiana's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial position, results of operations and cash flows during the fiscal year ended December 31, 2013. This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

***Introduction - The Housing Authority of the City of Evansville, Indiana***

The Authority is a Public Housing Authority with a Board of Commissioners. The applicable jurisdictions appoint the Board of Commissioners. However, the Authority has complete legislative and administrative authority, and it recruits and employs personnel. The Authority adopts a budget that is approved by the Board of Commissioners. Subsidies for operations are received primarily from the Department of Housing and Urban Development (HUD). The Authority has substantial legal authority to control its affairs without local government approval; therefore, all operations of the Authority are a separate reporting entity as reflected in this report. The Authority has included as blended component units the activities for Advantix Development, Inc., a non-profit organization, Lincoln Estates Redevelopment, Inc., a non-profit organization, and ADCV1505, Inc., a for-profit organization. Advantix Development, Inc., Lincoln Estates Redevelopment, Inc. and ADCV1505, Inc. are shown as blended component units because the Authority has financial accountability and control over their boards of directors and management.

The Authority has two discretely presented component units: Lincoln Estates Redevelopment, L.P. and Vision 1505, L.P. Lincoln Estate Redevelopment, L.P. and Vision 1505, L.P. prepare separately issued financial statements. The Authority is responsible for their debts and is entitled to surpluses.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes. The financial transactions of the Authority are recorded in the funds that consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses, as appropriate. The Authority is a self-supporting entity and follows enterprise fund reporting.

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in net position of the Authority. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

***Financial Statements***

The basic financial statements include three required statements, which provide different views of the Authority. They are the *Statement of Net Position*, the *Statement of Revenue, Expenses and Changes in Net Position* and the *Statement of Cash Flows*. These statements provide current and long-term information about the Authority and its activities.

The *Statement of Net Position* includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenue, Expenses, and Changes in Net Position*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through externally funded programs, tenant rents and other revenue sources.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

The primary purpose of the *Statement of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

***Financial Highlights***

- The Authority's net position decreased by approximately \$1.6 million during 2013 and \$4.2 million during 2012. This decrease is due to no longer receiving funds for the American Recovery and Reinvestment Act (ARRA) since that program has ended, as well as continued cuts by HUD to the Housing Choice Voucher Program (HCVP). The decrease in 2012 was also due to the Low Rent Public Housing Program receiving no federal funds, as they were directed by HUD to use reserves to cover all expenses.
- Operating revenues increased by approximately \$2.3 million during 2013 and were approximately \$13.4 million for 2013 and \$11.1 million for 2012.
- The total operating expenses for Authority programs decreased by approximately \$700 thousand during 2013. Total operating expenses were approximately \$15.6 million for 2013 and \$16.3 million for 2012.
- Non-operating income for the Authority decreased by approximately \$361 thousand during 2013. Total net non-operating income was approximately \$695 thousand for 2013 and \$1.1 million for 2012.

The Authority has many programs that are consolidated into a single enterprise fund. The programs consist of the following:

***Low Rent Public Housing Program***

This program is operated under HUD's Annual Contribution Contract (ACC) and consists of the operations of the low-rent public housing properties totaling 885 units. The purpose of this program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained, and managed by the Authority. Funding for the program is provided by federal annual contributions and operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition). The Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

***Housing Choice Voucher Program***

Under the Housing Choice Voucher Program, the Authority provides rental housing assistance subsidies in support of 1,534 housing units. The purpose of the program is to provide decent affordable housing to low-income families and elderly and handicapped persons wherein rental assistance is provided by HUD. The associated units are maintained and managed by private landlords.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

**Other Programs**

In addition to the significant programs noted above, the Authority also maintains other programs. Currently, the Authority administers the following smaller programs:

- Business Activities
- Capital Funds
- Resident Opportunity and Supportive Services
- Residential Vocational Training

**Net Position**

The following table is a condensed summary of net position of the business-type activities at December 31, 2013 and 2012:

	2013	2012	\$ Change	% Change
<b>Assets</b>				
Current assets	\$ 3,580,166	\$ 5,231,582	\$(1,651,416)	(31.6%)
Noncurrent investments	14,877	14,670	207	1.4%
Capital assets, net	<u>19,592,249</u>	<u>19,252,881</u>	<u>339,368</u>	<u>1.8%</u>
Total assets	<u>\$23,187,292</u>	<u>\$24,499,133</u>	<u>\$(1,311,841)</u>	<u>(5.4%)</u>
<b>Liabilities</b>				
Current liabilities	\$ 1,002,567	\$ 764,913	\$ 237,654	31.1%
Noncurrent liabilities	<u>1,179,086</u>	<u>1,161,662</u>	<u>17,424</u>	<u>1.5%</u>
Total liabilities	<u>\$ 2,181,653</u>	<u>\$ 1,926,575</u>	<u>\$ 255,078</u>	<u>13.2%</u>
<b>Net Position</b>				
Net investment in capital assets	\$18,562,924	\$18,188,812	\$ 374,112	2.1%
Restricted	114,955	159,318	(44,363)	(27.9%)
Unrestricted	<u>2,327,760</u>	<u>4,224,428</u>	<u>(1,896,668)</u>	<u>(44.9%)</u>
Total net position	<u>\$21,005,639</u>	<u>\$22,572,558</u>	<u>\$(1,566,919)</u>	<u>(6.9%)</u>

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

Total assets of the Authority as of December 31, 2013 and 2012 amounted to \$23,187,292 and \$24,499,133, respectively. Current assets primarily consist of cash and equivalents, certificates of deposits and receivables from HUD. Non-current assets primarily consist of certificates of deposits and capital assets. Capital assets include land, land improvements, structures, and equipment. All capital assets except for land and construction in progress are shown net of accumulated depreciation. The principal changes in assets from December 31, 2012 to December 31, 2013 were the decrease in investments and increase in cash and equivalents due to the maturity of certificates of deposits. The increase in cash and equivalents was less than the decrease in investments.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2013

Total liabilities of the Authority are \$2,181,653 and \$1,926,575 as of December 31, 2013 and 2012, respectively. Current liabilities include accounts payable, tenant security deposits, unearned revenue, accrued compensated absences and accrued expenses. Current liabilities have increased by \$237,654 due mainly to an increase in accrued expenses.

Net position represents the Authority's equity, a portion of which is restricted for certain use. Net position is divided into three major categories. The first category, net investment in capital assets shows the Authority's equity in land, structures, construction in progress, and equipment, net of related capital debt outstanding. The next net position category, restricted, is reserved for the programs mandated by HUD. The last category, unrestricted, is available to use for any lawful and prudent purpose of the Authority. The decrease in net position is due to the loss in the current year.

### ***Revenue, Expenses and Changes in Net Position***

The following table is a condensed summary of revenue, expenses and changes in net position of the business-type activities for the years ended December 31, 2013 and 2012.

	2013	2012	\$ Change	% Change
<b>Operating Revenue</b>				
Tenant revenue	\$ 2,448,252	\$ 2,540,840	\$ (92,588)	(3.6%)
HUD operating grants	10,485,765	7,848,876	2,636,889	33.6%
Capital grants - operating	255,524	572,186	(316,662)	(55.3%)
Other government grants		15,346	(15,346)	(100.0%)
Investment income	5,202	13,848	(8,646)	(62.4%)
Fraud recovery income	26,105	20,060	6,045	30.1%
Other revenue	<u>297,910</u>	<u>101,083</u>	<u>196,827</u>	<u>194.7%</u>
Total operating revenue	<u>13,518,758</u>	<u>11,112,239</u>	<u>2,406,519</u>	<u>21.7%</u>
<b>Operating Expenses</b>				
Administration	2,223,213	2,401,833	(178,620)	(7.4%)
Tenant services	86,135	15,613	70,522	451.7%
Housing assistance payments	8,080,431	8,488,466	(408,035)	4.8%
Utilities	973,701	963,032	10,669	1.1%
Ordinary maintenance and operations	1,809,056	1,892,114	(83,058)	(4.4%)
Insurance	229,878	182,704	47,174	25.8%
Other general expenses	537,675	621,576	(83,901)	(13.5%)
Interest expense	49,478	25,454	24,024	94.4%
Depreciation expense	<u>1,791,424</u>	<u>1,740,639</u>	<u>50,785</u>	<u>2.9%</u>
Total operating expenses	<u>15,780,991</u>	<u>16,331,431</u>	<u>(550,440)</u>	<u>(3.4%)</u>
Operating loss	(2,262,233)	(5,219,192)	2,956,959	56.7%
Nonoperating income (expense), net	<u>695,314</u>	<u>1,056,340</u>	<u>(361,026)</u>	<u>(34.2%)</u>
Change in net position	<u>\$ (1,566,919)</u>	<u>\$ (4,162,852)</u>	<u>\$2,595,933</u>	<u>(62.4%)</u>

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

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

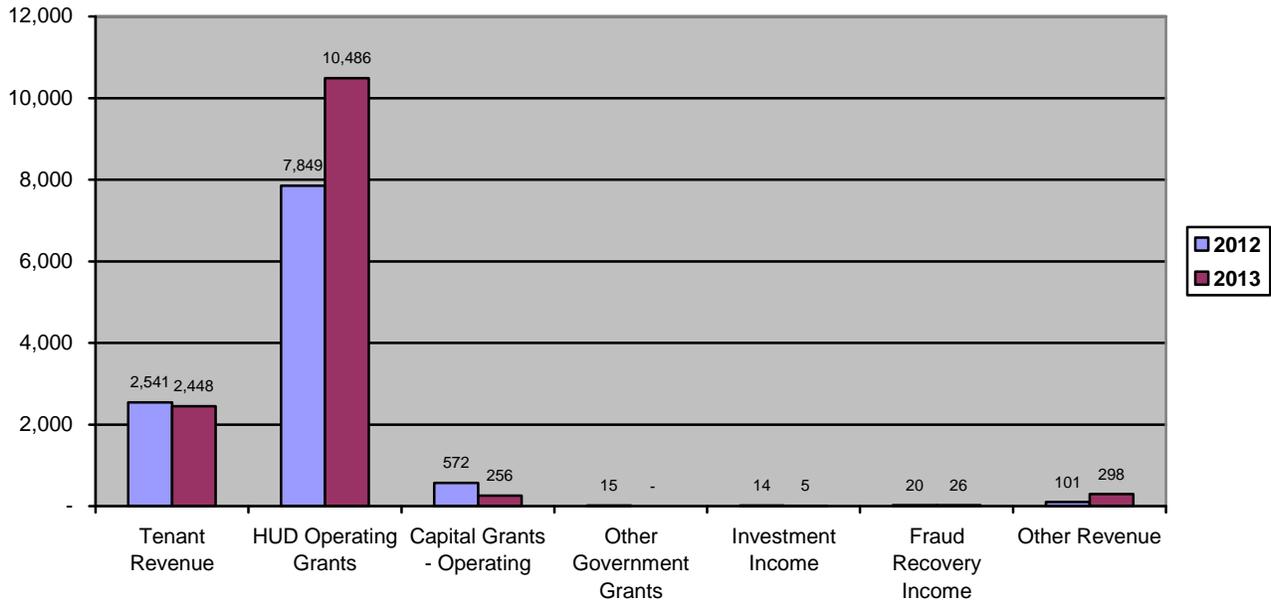
During 2013, the Authority’s operating loss was approximately \$2.3 million. Nonoperating income was approximately \$700 thousand which consisted mostly of capital grant income.

During 2012, the Authority’s operating loss was approximately \$5.2 million. Nonoperating income was approximately \$1.1 million which consisted mostly of capital grant income.

As seen in the chart below, the most important factor affecting the change in net position in 2013 was the increase in HUD operating grants. HUD funding increased in 2013 by approximately \$2.6 million for Low Rent Public Housing Program and HCVP from 2012 levels. In 2012, HUD instructed the Authority to use reserve funds to cover expenses. Operating expenses decreased approximately \$700 thousand in 2013 primarily due to a decrease in the number of vouchers given out as housing assistance payments in 2013 compared to 2012.

Operating revenue are shown in detail in the chart below:

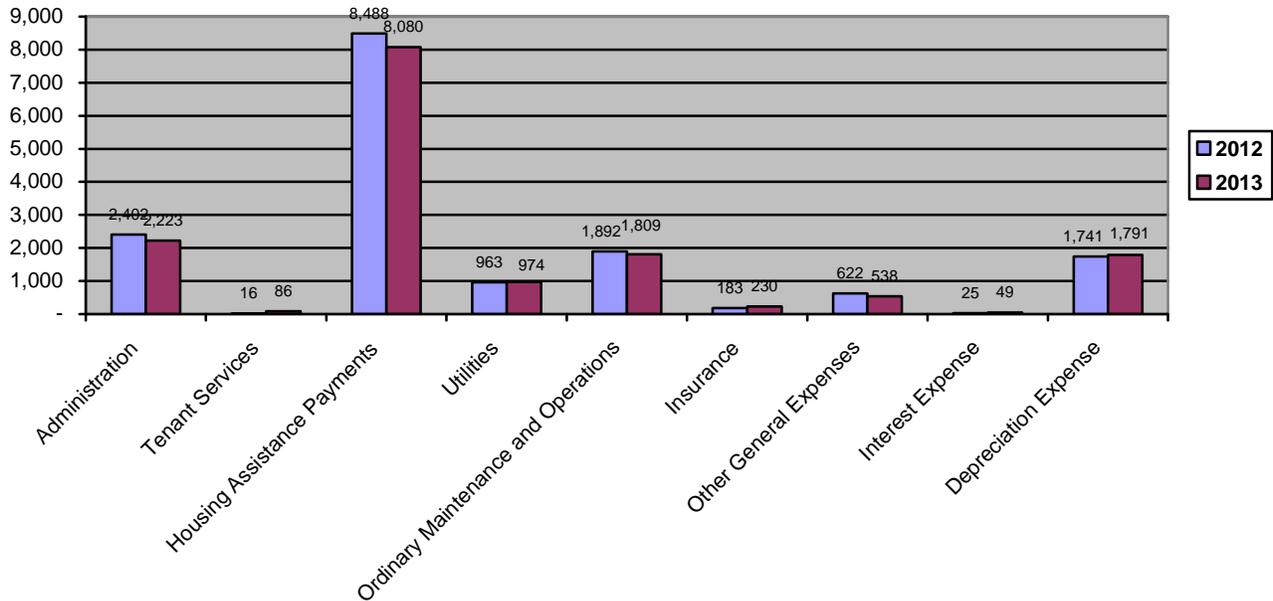
Operating Revenue – 2012 and 2013 (Dollars in Thousands)



**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

Operating expenses are shown in detail in the chart below:

Operating Expenses – 2012 and 2013 (Dollars in Thousands)



**Capital Assets**

As of December 31, 2013 and 2012, the Authority had approximately \$19.6 and \$19.3 million, respectively, invested in a variety of capital assets as reflected in the following table:

	2013	2012
Land	\$ 1,389,080	\$ 1,389,080
Buildings and improvements	49,414,788	47,716,165
Furniture, equipment and machinery	2,409,029	2,280,819
Construction in progress		24,819
Accumulated depreciation	<u>(33,620,648)</u>	<u>(32,158,002)</u>
Net capital assets	<u>\$ 19,592,249</u>	<u>\$ 19,252,881</u>

In 2013, the Authority made capital expenditures of approximately \$2.1 million while recognizing depreciation expense of approximately \$1.8 million and disposing of \$7,000 worth of equipment.

In 2012, the Authority made capital expenditures of approximately \$2.5 million while recognizing depreciation expense of approximately \$1.7 million and disposing of \$126,000 worth of equipment.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**December 31, 2013**

***Requests of Information***

This financial report is designed to provide a general overview of the Authority's finances and resources. Questions concerning any of this information should be addressed to The Housing Authority of the City of Evansville, Indiana, 500 Court Street, Evansville, Indiana, 47708.

Requests for full financial information of the Component Units should be addressed to The Housing Authority of the City of Evansville, Indiana, 500 Court Street, Evansville, Indiana, 47708.

**THE HOUSING AUTHORITY OF THE  
CITY OF EVANSVILLE, INDIANA**

**BASIC FINANCIAL STATEMENTS**

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**STATEMENT OF NET POSITION**

December 31, 2013

**ASSETS**

	<b>Primary Government</b>	<b>Component Units Lincoln Estates</b>	<b>Units Vision</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 2,598,933	\$ 17,607	\$ 36,100
Restricted cash - escrow deposits	149,558	64,667	12,802
Restricted cash - tenant security deposits	140,698	29,296	
Investments	489,910		
Accounts receivable - HUD	47,843		
Accounts receivable - tenants, net	19,263	5,307	773
Accounts receivable - other	17,816		
Prepaid expense and other current assets	116,145	7,478	51,000
<b>Total Current Assets</b>	<u>3,580,166</u>	<u>124,355</u>	<u>100,675</u>
 <b>CAPITAL ASSETS</b>			
Land	1,389,080	467,800	126,000
Buildings and improvements	49,414,788	6,716,057	6,758,409
Furniture, equipment and machinery - dwellings	1,067,749	691,164	507,639
Furniture, equipment and machinery - administrative	1,341,280		
	<u>53,212,897</u>	<u>7,875,021</u>	<u>7,392,048</u>
Less: Accumulated depreciation	<u>(33,620,648)</u>	<u>(3,120,558)</u>	<u>(227,861)</u>
<b>Total Capital Assets</b>	<u>19,592,249</u>	<u>4,754,463</u>	<u>7,164,187</u>
 <b>OTHER ASSETS</b>			
Investments - noncurrent	14,877		
Deposits		1,190	
Other assets		41,067	50,623
<b>Total Other Assets</b>	<u>14,877</u>	<u>42,257</u>	<u>50,623</u>
 <b>TOTAL ASSETS</b>	<u><u>\$ 23,187,292</u></u>	<u><u>\$ 4,921,075</u></u>	<u><u>\$ 7,315,485</u></u>

## LIABILITIES AND NET POSITION

	Component Units		
	Primary Government	Lincoln Estates	Vision
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 71,369	\$ 81,804	\$ 62,050
Accounts payable - HUD	3,472		
Tenant security deposits	140,698	27,875	
Unearned revenue	36,744	976	622
Accrued compensated absences - current portion	121,028		
Accrued wages and payroll taxes	82,260		
Accrued expenses	452,419	172,247	53,976
Other current liabilities	47,459		
Current portion of long-term debt	47,118	37,023	9,334
Total Current Liabilities	<u>1,002,567</u>	<u>319,925</u>	<u>125,982</u>
<b>NONCURRENT LIABILITIES</b>			
Other liabilities	175,710		927,000
Accrued compensated absences, net of current portion	21,169		
Loan payable, net of current portion	982,207		
IHCDA Development Fund Loan			490,666
Mortgage payable, net of current portion		1,760,774	
Notes payable and advances, due to primary government		1,149,507	
Total Noncurrent Liabilities	<u>1,179,086</u>	<u>2,910,281</u>	<u>1,417,666</u>
Total Liabilities	<u>2,181,653</u>	<u>3,230,206</u>	<u>1,543,648</u>
<b>NET POSITION</b>			
Net investment in capital assets	18,562,924	1,807,159	5,737,187
Restricted	114,955		
Unrestricted (deficit)	2,327,760	(116,290)	34,650
Total Net Position	<u>21,005,639</u>	<u>1,690,869</u>	<u>5,771,837</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 23,187,292</u>	<u>\$ 4,921,075</u>	<u>\$ 7,315,485</u>

See accompanying notes.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**Year Ended December 31, 2013**

	<b>Primary Government</b>	<b>Component Units</b>	
		<b>Lincoln Estates</b>	<b>Vision</b>
<b>OPERATING REVENUE</b>			
Tenant revenue	\$ 2,448,252	\$ 579,185	\$ 246,282
HUD operating grants	10,485,765		
Capital grants - operating	255,524		
Investment income - unrestricted	5,202		
Fraud recovery income	26,105		
Other revenue	297,910	16,205	27
Total Operating Revenue	<u>13,518,758</u>	<u>595,390</u>	<u>246,309</u>
<b>OPERATING EXPENSES</b>			
Administration	2,223,213	109,011	92,884
Tenant services	86,135		
Housing assistance payments	8,080,431		
Utilities	973,701	80,748	79,139
Ordinary maintenance and operations	1,809,056	201,420	48,485
Insurance	229,878	30,709	41,158
Other general expenses	537,675	123,074	7,321
Interest expense	49,478	115,491	167,356
Depreciation and amortization expense	1,791,424	161,281	231,477
Total Operating Expenses	<u>15,780,991</u>	<u>821,734</u>	<u>667,820</u>
Operating Loss	<u>(2,262,233)</u>	<u>(226,344)</u>	<u>(421,511)</u>
<b>NONOPERATING INCOME (EXPENSE)</b>			
Interest income		55	
Loss on sale of real estate held for sale	(56,951)		
Gain on sale of capital assets	625		
Capital grants - hard costs	751,640		
Total Nonoperating Income (Expense)	<u>695,314</u>	<u>55</u>	<u>-</u>
Change in net position before syndication costs and capital contributions	<u>(1,566,919)</u>	<u>(226,289)</u>	<u>(421,511)</u>
<b>SYNDICATION COSTS AND CAPITAL CONTRIBUTIONS</b>			
Syndication costs			(12,000)
Capital contributions			5,540,030
Total Syndication Costs and Capital Contributions	<u>-</u>	<u>-</u>	<u>5,528,030</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(1,566,919)	(226,289)	5,106,519
<b>NET POSITION</b>			
Beginning of Year	<u>22,572,558</u>	<u>1,917,158</u>	<u>665,318</u>
End of Year	<u>\$ 21,005,639</u>	<u>\$1,690,869</u>	<u>\$ 5,771,837</u>

See accompanying notes.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**STATEMENT OF CASH FLOWS  
Year Ended December 31, 2013**

	<b>Primary Government</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from dwelling rent	\$ 2,477,005
Cash received from HUD grants	10,494,747
Cash received from other governmental grants	255,524
Cash received from other sources	242,315
Cash payments to employees for services	(2,660,001)
Cash payments for employee benefits	(743,582)
Cash payments to participants in the Housing Choice Voucher Program	(8,080,431)
Cash payments to other suppliers for goods and services	<u>(2,327,046)</u>
Net Cash Used by Operating Activities	<u>(341,469)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(2,136,653)
Proceeds from sale of capital assets	6,485
Repayment of loan payable	(34,744)
Capital grants received	<u>829,985</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,334,927)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net redemptions of certificates of deposit	2,699,537
Interest received	6,060
Improvements made to properties held for sale	(31,528)
Proceeds from sale of real estate held for sale	<u>97,285</u>
Net Cash Provided by Investing Activities	<u>2,771,354</u>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	1,094,958
<b>CASH AND EQUIVALENTS</b>	
Beginning of Year	<u>1,503,975</u>
End of Year	<u><u>\$ 2,598,933</u></u>
<b>Reconciliation of Decrease in Net Position to Net Cash Used by Operating Activities:</b>	
Decrease in net position	\$ (1,566,919)
Depreciation expense	1,791,424
Capital grants revenue	(751,640)
Loss on sale of capital assets	(625)
Loss on sale of real estate held for sale	56,951
Interest revenue	(5,202)
Decrease in allowance for doubtful accounts - tenants receivable	15,652
(Increase) decrease in certain current assets:	
Restricted cash - escrow deposits	(125,529)
Accounts receivable - HUD	8,982
Accounts receivable - tenants	(14,266)
Accounts receivable - other	(12,497)
Prepaid expenses and other current assets	(23,660)
Increase (decrease) in certain liabilities:	
Accounts payable	17,899
Accounts payable - HUD	8
Unearned revenue	27,367
Other liabilities	<u>240,586</u>
Net Cash Used by Operating Activities	<u><u>\$ (341,469)</u></u>

See accompanying notes.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Housing Authority of the City of Evansville, Indiana (the Authority) is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States and have been consistently applied in the preparation of the financial statements.

**Nature of Operations:** The Authority, a governmental entity, is organized under the laws of the State of Indiana (State) for the purpose of engaging in the development and administration of low-rent housing programs. The Authority owns and operates 885 public housing units and administers 1,534 Section 8 units under an Annual Contributions Contract (ACC) in Evansville, Indiana.

The Authority's activities include the following programs:

*Low Rent Public Housing Program* – This program is operated under HUD's ACC and consists of the operations of the low-rent public housing properties totaling 885 units. The purpose of this program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained, and managed by the Authority. Funding for the program is provided by federal annual contributions and operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition). The Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

*Housing Choice Voucher Program* – Under the Housing Choice Voucher Program, the Authority provides rental housing assistance subsidies in support of 1,534 housing units. The purpose of the program is to provide decent affordable housing to low-income families and elderly and handicapped persons wherein rental assistance is provided by HUD. The associated units are maintained and managed by private landlords.

*Other Programs* – In addition to the significant programs noted above, the Authority also maintains other programs. Currently, the Authority administers the following smaller programs:

- Business Activities
- Capital Funds
- Resident Opportunity and Supportive Services

**Reporting Entity:** The Authority is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The 7-member Board of Commissioners of the Authority is appointed to 4 year staggering terms by the Mayor of the City of Evansville, but the Authority designates its own management. The City of Evansville is not financially accountable for the Authority as it cannot impose its will on the Authority, and there is no potential for the Authority to provide financial benefits to, or impose financial burdens on the City of Evansville. Accordingly, the Authority is not a component unit of the financial reporting entity of the City of Evansville.

The Authority has included as blended component units the activities for Advantix Development, Inc., a non-profit organization, Lincoln Estates Redevelopment, Inc., a non-profit organization, and ADCV1505, Inc., a for-profit organization. Advantix Development, Inc., Lincoln Estates Redevelopment, Inc. and ADCV1505, Inc. are shown as blended component units because the Authority has financial accountability and control over their boards of directors and management.

The Authority has included, as a discretely presented component unit, the activity for Lincoln Estates Redevelopment Partnership, L.P. (Lincoln Estates). The discrete method presents the financial statements of the component unit outside of the basic financial statement totals of the primary government. Lincoln Estates is shown as a discretely presented component unit because the Authority is financially accountable for it; however, they do not have full ownership over the entity. Lincoln Estates Redevelopment, Inc. (which is included as a blended component of the Authority) has a .01% general partner interest in Lincoln Estates. Lincoln Estates is a 112 unit, residential apartment project known as Lincoln Estates Apartments located in Evansville, Indiana.

The Authority has also included, as a discretely presented component unit, the activity for Vision 1505, L.P. (Vision). Vision is shown as a discretely presented component unit because the Authority is financially accountable for it; however, they do not have full ownership over the entity. ADC V1505, Inc. (which is included as a blended component of the Authority) has a .001% general partner interest in Vision. Vision is a 32 unit, residential supportive apartment project known as Vision 1505 located in Evansville, Indiana. Rental operations for Vision began during 2013.

Requests for full financial information of Lincoln Estates and Vision (the Component Units) should be addressed to The Housing Authority of the City of Evansville, Indiana, 500 Court Street, Evansville, Indiana, 47708.

**Basis of Presentation:** The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The Authority accounts for all of its activity as a proprietary fund which includes business-type activities that are financed in whole or in part by fees charged to external parties.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation:** The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

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. This includes capital subsidy for the capital fund program.

**Revenue Recognition:** Tenant rent revenue is recorded as rentals become due. Rental payments received in advance, if any, are deferred until earned.

The Authority has entered into an ACC with HUD to develop, manage and own public housing projects and to administer the federal Section 8 programs whereby the Authority pays the owner a portion of the rent, a housing assistance payment (HAP), on behalf of the family. Such contributions are reflected as HUD grants in the accompanying financial statements.

The Component Units recognize net rent revenue in the period in which the rent is earned. In accordance with HUD financial reporting requirements, gross potential rent revenue represents total possible rent revenue as if all units are 100% occupied during the year. Net rent revenue earned represents gross potential rent revenue less vacancies. Rents collected in advance are deferred until the rental income is earned.

**Cash and Equivalents:** For purposes of reporting cash flows, cash and equivalents include cash on hand and on deposit and investments with an original maturity of three months or less.

**Investments:** All investments are reflected at fair value. Investments are restricted by the provisions of HUD regulations. Investments consist primarily of bank certificates of deposits with original maturities of greater than three months.

**Accounts Receivable:** Tenant accounts receivable consist of amounts invoiced to tenants for rents. The Authority provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and economic conditions. Delinquent accounts are written off based on management's review of the specific circumstances of each tenant. As of December 31, 2013, the allowance for doubtful accounts totaled \$25,800. In addition, other accounts receivable consist of amounts due from HUD under reimbursements due under grants.

**Notes and Mortgage Receivable:** Notes and mortgage receivable are carried at the principal amount outstanding net of an allowance for doubtful accounts. The mortgage receivable was paid in full by December 31, 2013. As of December 31, 2013, the allowance for doubtful accounts totaled \$1,149,507, entirely offsetting the principal amount of the notes receivable.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Capital Assets:** Capital assets are recorded at cost. Maintenance and repairs are charged to expense as incurred; renewals or betterments are capitalized. The Authority capitalizes capital asset purchases over \$500. Gain or loss on retirements and disposition of assets is credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

Capital assets are depreciated using the straight-line method over the estimated useful lives as follows:

Buildings and improvements	10-39 years
Furniture, equipment and machinery	5-7 years

The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine when impairment of a capital asset has occurred. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment of capital assets with physical damage are generally measured using the restoration cost approach, which uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written-off. No such impairment loss was incurred during 2013.

**Compensated Absences:** Compensated absences are those for which employees will be paid, such as vacation. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside of the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.

**Net Position:** The Authority classifies net position for accounting and financial reporting purposes in the following net position categories:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

**Use of Restricted and Unrestricted Resources:** When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Capital Contributions:** Vision's limited partner is to make capital contributions totaling \$7,155,588 at various times, as specified in the partnership agreement. As of December 31, 2013, a total of \$899,999 remains outstanding. The general partner and special limited partners A and B are to make an initial capital contribution of \$100 each, of which \$200 is outstanding at December 31, 2013.

**Property Taxes:** The Component Units expense real estate and personal property taxes in the year of lien on the property. The Authority is exempt from state and local property taxes.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Payments in Lieu of Taxes:** Pursuant to an agreement with Vanderburgh County, the Authority may make payments in lieu of taxes (PILOT). During 2013, the Authority made \$141,546 of payments in lieu of taxes to the Office of the Vanderburgh County Treasurer.

**Primary Government Income Taxes:** Income received or generated by the Authority is not subject to federal income tax, pursuant to Internal Revenue Code Section 115. Interest paid on obligations issued by the Authority is excludable from the gross income of the recipients, pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. Contributions to the Authority are tax deductible contributions, pursuant to Sections 170(b)(1)(A)(v) and 170(c)(1) of the Internal Revenue Code of 1986, as amended.

**Component Units' Income Taxes:** No provision for federal or state income taxes has been made in the Component Units' financial statements as the federal and state income tax effect on the Component Units' activities accrues to their partners.

**Subsequent Events:** The Authority has evaluated the financial statements for subsequent events occurring through August 8, 2014, the date the financial statements were available to be issued.

### NOTE 2 - CASH DEPOSITS AND INVESTMENTS

During the year ended December 31, 2013, the Authority held cash deposits and investments with several financial institutions. Investments are primarily certificates of deposit.

**Investment Policy:** It is the policy of the Authority to invest its funds in a manner, which will provide the highest investment return with maximum security while meeting the daily cash flow needs of the Authority, and comply with all federal, state and local statutes or ordinances governing the investment of public funds. The Authority's investment policy requires investment in instruments authorized by HUD Notice PIH 96-33.

**Custodial Credit Risk:** Custodial credit risk is the risk that the Authority will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty of the counterparty's trust department or agent but not in the Authority's name. As of December 31, 2013, the Authority had not entered into any agreements subject to custodial credit risk.

Cash is exposed to risk if it is not covered by depository insurance in the pledging financial institution. At December 31, 2013, the Authority's cash is held at multiple financial institutions and is insured up to the FDIC limit of \$250,000 for interest bearing accounts, and unlimited insurance for non-interest bearing accounts. As of December 31, 2013, the Authority had \$3,393,976 of cash and investments, with a maximum risk of \$1,800.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Authority's investment policy limits investments to provide the optimum return on the investment consistent with the cash management program of the Authority.

Investments are made based upon prevailing market conditions at the time of the transaction. The Authority reviews its cash and investments in order to maintain adequate liquidity to meet its cash flow needs. Investments will typically be limited to certificates of deposit maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the Authority.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Concentration of Credit Risk:** The Authority's investment policy requires diversification of the overall portfolio to eliminate the risk of loss resulting from an over concentration of assets in a specific maturity, a specific issuer and/or a specific class of securities.

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit. All of the Authority's cash deposits and investments are denominated in United States currency.

At December 31, 2013, the cash deposits and investments of the Authority with financial institutions were insured as follows:

	<b>Balance per Statement of Net Position</b>	<b>Bank Balance</b>
Cash and equivalents insured by FDIC (up to \$250,000 per bank for interest bearing, unlimited for non-interest bearing)	\$2,887,389	\$2,902,506
Certificates of deposit insured by FDIC (up to \$250,000 per bank)	<u>504,787</u>	<u>505,000</u>
Total Insured	3,392,176	3,407,506
Uninsured	<u>1,800</u>	<u>1,800</u>
Total Cash and Equivalents and Investments	<u>\$3,393,976</u>	<u>\$3,409,306</u>

At December 31, 2013, the Authority had the following investments and maturities:

	<b>Credit Rating</b>	<b>Investment Maturities (in years)</b>		
		<b>Fair Value</b>	<b>&lt;1</b>	<b>1 - &lt;5</b>
Certificates of deposit	N/A	<u>\$ 504,787</u>	<u>\$ 489,910</u>	<u>\$ 14,877</u>

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

*Component Units Deposits* – As of December 31, 2013, Lincoln Estates' carrying amount of deposits was \$111,570. As of December 31, 2013, Vision's carrying amount of deposits was \$48,902. The bank balances held with financial institutions are entirely insured and are classified as cash and equivalents on the statement of net position.

*Restricted Deposits* – Regulations of HUD require that security deposits be segregated from general funds of the Authority. Accordingly, the Authority and its Component Units hold all security deposits in a separate interest-bearing account. At December 31, 2013, amounts held for security deposits totaled:

Security Deposits – Primary Government	\$140,698
Security Deposits – Lincoln Estates	29,296

Pursuant to various agreements, the Authority and its Component Units must hold amounts in escrow for restricted use. At December 31, 2013, amounts held in escrow totaled:

Escrow Deposits – Primary Government	\$149,558
Escrow Deposits – Lincoln Estates	64,667

Pursuant to various agreements, the Authority and its component unit Vision must hold amounts in reserves for restricted use. The following is a summary of activity in the reserve accounts for the year ended December 31, 2013:

	<b>Operating Reserve</b>	<b>Subsidy Reserve</b>	<b>Replacement Reserve</b>	<b>Total</b>
Balance – January 1, 2013				
Additions			\$12,802	\$12,802
Withdrawals	_____	_____	_____	_____
Balance – December 31, 2013	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$12,802</u>	<u>\$12,802</u>

**NOTE 3 - NOTES AND MORTGAGE RECEIVABLE**

To aid low income families in purchasing homes through the Homebuyers Program, the Authority loaned the buyer a down payment on the mortgage and took a promissory note secured by a subordinated deed of trust upon the real estate. Providing the borrower did not refinance, sell, or transfer the property and was not in default of any other deed of trust on the property, no payments were required and, in fact, the Authority forgave a portion of the loan over a period of time. The balance of the mortgage receivable was paid in full during 2013.

The Authority has gross notes receivable and advances and an offsetting allowance of \$1,149,507 for a loan made to Lincoln Estates. The allowance fully covers the loan which is payable to the Authority and dependent on uncertain cash flows.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - CAPITAL ASSETS**

The following is a summary of changes in the capital assets of the Authority for the year ended December 31, 2013:

	<b>Balance at January 1, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance at December 31, 2013</b>
Non-depreciable capital assets:					
Land	\$ 1,389,080	\$ -	\$ -	\$ -	\$ 1,389,080
Construction in progress	<u>24,819</u>	<u>          </u>	<u>          </u>	<u>(24,819)</u>	<u>          </u>
Total Non-Depreciable Capital Assets	<u>1,413,899</u>	<u>          </u>	<u>          </u>	<u>(24,819)</u>	<u>1,389,080</u>
Depreciable capital assets:					
Buildings and improvements	47,716,165	1,673,804		24,819	49,414,788
Furniture, equipment and machinery	<u>2,280,819</u>	<u>462,848</u>	<u>334,638</u>	<u>          </u>	<u>2,409,029</u>
Total Depreciable Capital Assets	<u>49,996,984</u>	<u>2,136,652</u>	<u>334,638</u>	<u>24,819</u>	<u>51,823,817</u>
Total Accumulated Depreciation	<u>32,158,002</u>	<u>1,791,423</u>	<u>328,777</u>	<u>          </u>	<u>33,620,648</u>
Total Depreciable Capital Assets, Net	<u>17,838,982</u>	<u>345,229</u>	<u>5,861</u>	<u>24,819</u>	<u>18,203,169</u>
Total Capital Assets, Net	<u>\$19,252,881</u>	<u>\$ 345,229</u>	<u>\$ 5,861</u>	<u>\$          </u>	<u>\$19,592,249</u>

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in the capital assets of Lincoln Estates for the year ended December 31, 2013:

	<b>Balance at January 1, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance at December 31, 2013</b>
Non-depreciable capital assets:					
Land	\$ 467,800	\$ -	\$ -	\$ -	\$ 467,800
Total Non-Depreciable Capital Assets	<u>467,800</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>467,800</u>
Depreciable capital assets:					
Buildings and improvements	6,716,057				6,716,057
Furniture, equipment and machinery	<u>691,164</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>691,164</u>
Total Depreciable Capital Assets	<u>7,407,221</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>7,407,221</u>
Total Accumulated Depreciation	<u>2,964,358</u>	<u>156,200</u>	<u>          </u>	<u>          </u>	<u>3,120,558</u>
Total Depreciable Capital Assets, Net	<u>4,442,863</u>	<u>(156,200)</u>	<u>          </u>	<u>          </u>	<u>4,286,663</u>
Total Capital Assets, Net	<u>\$4,910,663</u>	<u>\$(156,200)</u>	<u>\$          </u>	<u>\$          </u>	<u>\$4,754,463</u>

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in the capital assets of Vision for the year ended December 31, 2013:

	<b>Balance at January 1, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance at December 31, 2013</b>
Non-depreciable capital assets:					
Land	<u>\$ 126,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,000</u>
Total Non-Depreciable Capital Assets	<u>126,000</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>126,000</u>
Depreciable capital assets:					
Buildings and improvements	6,534,070	224,339			6,758,409
Furniture, equipment	<u>469,190</u>	<u>38,449</u>	<u>          </u>	<u>          </u>	<u>507,639</u>
Total Depreciable Capital Assets	<u>7,003,260</u>	<u>262,788</u>	<u>          </u>	<u>          </u>	<u>7,226,048</u>
Total Accumulated Depreciation	<u>          </u>	<u>227,861</u>	<u>          </u>	<u>          </u>	<u>227,861</u>
Total Depreciable Capital Assets, Net	<u>7,003,260</u>	<u>34,927</u>	<u>          </u>	<u>          </u>	<u>7,038,187</u>
Total Capital Assets, Net	<u><u>\$7,129,260</u></u>	<u><u>\$ 34,927</u></u>	<u><u>\$          </u></u>	<u><u>\$          </u></u>	<u><u>\$7,164,187</u></u>

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 5 - RETIREMENT PLAN

#### *Plan Description*

The Authority is a participating employer in the Indiana Public Retirement System (INPRS). The Authority contributes to the INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under the Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all Authority employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants are required to contribute 3% of compensation to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participant. Participants may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described above.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

#### *Funding Policy*

The Authority contributes the participant's required contribution of 3% of their annual salary to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The Authority is required by State statute to contribute at an actuarially determined rate to the defined benefit plan. The current rate is 8% of annual covered payroll. The contribution requirements of participants are determined by State statute.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 5 - RETIREMENT PLAN (CONTINUED)

#### ***Annual Pension Cost***

For the 2013 plan year, the Authority's annual contribution of \$181,661 was less than the required contribution of \$249,617. The Authority has a net pension obligation of \$141,104 at December 31, 2013. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2013 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6.75% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual post retirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

### NOTE 6 - COMPENSATED ABSENCES

Authority employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave is not vested and is not paid to an employee upon separation. Vested or accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. Sick leave is recorded as an expense as the employee utilizes it. A liability has been recorded for compensated absences totaling \$142,197 at December 31, 2013.

### NOTE 7 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

#### **Primary Government**

The Authority has a \$1,000,000 revolving line of credit for short term borrowings through September 23, 2014. Borrowings under the line of credit are collateralized by substantially all of the Authority's assets. Borrowings under the line of credit bear interest at the Bank's prime lending rate (3.25% at December 31, 2013). There were no borrowings outstanding at December 31, 2013.

On November 23, 2011, the Authority entered into a financing agreement to purchase energy efficient equipment for \$1,079,391. As of December 31, 2013, \$1,029,325 had been drawn on the loan. Effective July 15, 2012, the Authority began making monthly payments of \$7,533, which include principal and interest. The loan bears interest at 4.70% annually and matures November 15, 2026. The loan is secured by the purchased equipment.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 7 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (CONTINUED)**

Debt service requirements of the Authority as of December 31, 2013 are as follows:

<b>Payable In</b>			<b>Principal</b>			<b>Interest</b>
2014			\$ 47,118			\$ 47,463
2015			52,202			45,142
2016			57,691			42,572
2017			63,534			39,736
2018			69,750			36,618
2019-2023			433,710			126,311
2024-2026			<u>305,320</u>			<u>19,729</u>
<b>Total Requirements</b>			<u><b>\$1,029,325</b></u>			<u><b>\$357,571</b></u>

	<b>Balance at January 1, 2013</b>	<b>Additions/ Transfers</b>	<b>Retirements</b>	<b>Balance at December 31, 2013</b>	<b>Due within one year</b>
Other liabilities	\$ 97,223	\$178,001	\$ 99,514	\$ 175,710	\$ -
Accrued compensated absences	167,215	79,863	104,881	142,197	121,028
Loan payable to bank	<u>1,064,069</u>	<u>          </u>	<u>34,744</u>	<u>1,029,325</u>	<u>47,118</u>
<b>Total Long-term Obligations</b>	<u><b>\$1,328,507</b></u>	<u><b>\$257,864</b></u>	<u><b>\$239,139</b></u>	<u><b>\$1,347,232</b></u>	<u><b>\$168,146</b></u>

**Component Unit – Lincoln Estates**

The mortgage note, dated February 8, 2002, is due to the Class B Special Limited Partner. The note was originally due in monthly installments of principal and interest through February 8, 2022, at which time the remaining balance was due. The mortgage note had an original balance of \$2,060,000. The note is secured by a first deed of trust on the rental property and an assignment of tenant rents.

On January 13, 2009, the terms of the note were modified. Effective March 8, 2009, monthly payments, including principal and interest of \$13,689 were required. The loan bore interest at 7.375% annually through February 8, 2011. On March 8, 2011, the lender at its option adjusted the interest rate to the prime rate plus 2.25%. The effective rate as of December 31, 2013 was 5.5%. At December 31, 2013, the note had an outstanding balance of \$1,797,797. The note matures on October 8, 2036.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 7 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (CONTINUED)**

Debt service requirements of Lincoln Estates as of December 31, 2013 are as follows:

Payable In	Principal	Interest
2014	\$ 37,023	\$ 112,988
2015	38,584	111,187
2016	41,117	108,654
2017	43,816	105,955
2018	46,692	103,079
2019-2023	283,667	465,187
2024-2028	389,829	359,025
2029-2033	535,722	213,133
2034-2036	<u>381,347</u>	<u>42,764</u>
 Total Requirements	 <u>\$1,797,797</u>	 <u>\$1,621,972</u>

On June 4, 1999, Lincoln Estates obtained a loan from the primary government, in the amount of \$567,800. The loan is noninterest-bearing, matures in 2029 and is secured by a second deed of trust on the rental property and an assignment of rents.

Also on June 4, 1999, Lincoln Estates obtained a loan from the Original General Partner, in the amount of \$392,000. The loan is noninterest-bearing, matures in 2029 and is secured by a third deed of trust on the rental property and an assignment of rents. In 2007, the loan was assigned to the primary government.

	Balance at January 1, 2013	Additions/ Transfers	Retirements	Balance at December 31, 2013	Due within one year
Mortgage payable to Class B Special Limited Partner	\$1,831,773		\$33,976	\$1,797,797	\$37,023
Loans payable to primary government	959,800			959,800	
Advances due to primary government (see Note 11)	<u>189,707</u>	<u>          </u>	<u>          </u>	<u>189,707</u>	<u>          </u>
 Total Notes Payable and Advances	 <u>\$2,981,280</u>	 <u>\$          </u>	 <u>\$33,976</u>	 <u>\$2,947,304</u>	 <u>\$37,203</u>

**Component Unit – Vision**

In October 2011, Vision obtained a loan from the Indiana Housing and Community Development Authority (IHCDA), in the amount of \$500,000. The loan bears interest at 3%, which accrues on all advances during construction with a one-time interest payment at the conversion date. The loan matures on October 1, 2028. The term of the loan is 17 years with a two year construction term, when the loan will convert to a term note. The loan requires annual payments of \$25,510 beginning on September 1, 2014. At December 31, 2013, \$500,000 was drawn on the loan.

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 7 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (CONTINUED)**

Debt service requirements of Vision as of December 31, 2013 are as follows:

Payable In	Principal	Interest
2014	\$ 9,334	\$ 15,000
2015	10,825	14,685
2016	11,150	14,360
2017	11,485	14,025
2018	11,829	13,681
2019-2023	64,686	62,864
2024-2028	<u>380,691</u>	<u>61,697</u>
 Total Requirements	 <u>\$500,000</u>	 <u>\$196,312</u>

In September 2011, Vision obtained a construction loan from Salin Bank and Trust Company, with borrowings allowed up to a maximum of \$5,327,649. The loan bore interest at the greater of one-month LIBOR plus 425 basis points or 4.50%, which accrued on all advances during construction and is payable monthly. The loan was to mature on September 30, 2013 and was repaid in August 2013.

	Balance at January 1, 2013	Additions/ Transfers	Retirements	Balance at December 31, 2013	Due within one year
Loan payable to IHCDA	\$ 500,000		\$ -	\$ 500,000	\$9,334
Other liabilities	1,050,000		123,000	927,000	
Loan payable to bank	<u>4,527,389</u>		<u>4,527,389</u>		
Total Long-term Obligations	<u>\$6,077,389</u>	<u>\$</u>	<u>\$4,650,389</u>	<u>\$1,427,000</u>	<u>\$9,334</u>

**NOTE 8 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss from torts, theft of, damages to, or destruction of assets, business interruption, errors or omissions, job related illnesses or injuries to employees, and natural disasters. The Authority has purchased commercial insurance to mitigate its exposure to such losses. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductible and maximums are exceeded, this could cause the Authority to suffer losses if a loss is incurred from any such incidents. The ultimate outcome of such uninsured losses cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements. Settled claims to date have not exceeded coverage levels, and insurance coverage levels, and insurance coverage, by major categories of risk, is consistent with coverage in the prior year.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 9 - CONCENTRATIONS

The Authority is substantially funded by federal awards. The Authority received 82% of its total revenue from a single Federal Agency during the year ended December 31, 2013. Management is considering participation in HUD's Rental Demonstration Program which would alter funding and delivery of services in future years.

A portion of the labor costs of the Authority are attributable to employees under a collective bargaining agreement. Consequently, the Authority is subject to this agreement with respect to wages and other labor-related matters.

### NOTE 10 - CONTINGENCIES

The Authority is party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The Authority's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the Authority.

The Authority has received several federal grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

Pursuant to the HUD Office of Inspector General audits conducted in 2002 and 2004, the Authority had an initial contingent repayment of \$1,518,517 to HUD which was subsequently reduced to \$835,482. The Authority and HUD have agreed to negotiated terms for resolution of these audits that requires the Authority to continue with its Homeownership Program. As long as the Authority is maintaining the Homeownership Program, HUD will not seek repayment of the amounts due from the audits and eventually, over time as homes continue to be sold, the contingent liability will be reduced to zero. Therefore this contingent repayment is not recorded as a liability on the statement of net position.

### Component Unit – Vision

#### **Operating Deficit Guaranty**

Pursuant to Vision's operating deficit guaranty, upon reduction of the operating reserve to zero, the general partner, special limited partner B and the specified guarantors, are obligated to provide funds to Vision to cover operating deficits during the operating deficit guaranty period. The operating deficit guaranty period begins with the stabilization of operations and ends on the fifth anniversary of the stabilization date provided, however, that a minimum debt service coverage of 1.20 to 1.00 to be achieved for the 12 month period immediately preceding the expiration of the guaranty period and the operating reserve is fully funded. Advances are to be treated as non-interest bearing loans to Vision. No funds were advanced under this guaranty in 2013.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 11 - RELATED PARTY INFORMATION

The Authority has advanced funds to Lincoln Estates in the amount of \$1,149,507 during prior years. Management has declared the entire amount uncollectible and has set up an allowance for doubtful accounts in the amount of \$1,149,507 as of December 31, 2013.

Prior to a Board member's resignation effective March 2013, the Authority had transacted certain activity with various entities that were managed by that member of the Board of Commissioners. The Board member did not have any ownership in these entities. The Board member's management company received a management fee for managing the operations of these entities. These entities (not the Board member) received housing assistance payments of approximately \$22,514 from January 2013 to March 2013 through the Authority's Housing Choice Voucher Program. The HUD Indianapolis office had provided the Authority a waiver which allowed the Board member to serve in the capacity as a commissioner and continue his role in managing these entities.

#### **Component Unit – Lincoln Estates**

##### **Advances**

The original general partner had advanced funds to Lincoln Estates in order for it to meet financial obligations. These advances were assigned to the Authority. As of December 31, 2013, outstanding advances amounted to \$133,713.

The Authority also advanced funds to Lincoln Estates in order for it to meet financial obligations. As of December 31, 2013, the outstanding advances amounted to \$55,994.

##### **Limited Partner Reporting Fee**

The partnership agreement provides that an annual limited partner reporting fee of \$7,500 be paid to the Limited Partner from available net operating income. During the year ended December 31, 2013, \$7,500 was charged to operations. As of December 31, 2013, \$67,500 was payable to the Limited Partner.

##### **Incentive Management Fee**

The partnership agreement provides that an incentive management fee be paid to the General Partner for services in connection with the management of the Project. The fee is equal to 70% of available net operating income and does not accrue. No incentive management fee was incurred for the year ended December 31, 2013.

##### **Net Operating Income**

Net operating income, as defined in the partnership agreement, is available for distribution after year end in accordance with the partnership agreement. As of December 31, 2013, there was no net operating income available for distribution.

#### **Component Unit – Vision**

City Real Estate Advisors, Inc. (CREA) is entitled to receive an annual asset management fee in the amount of \$4,000 commencing in 2012. The fee is payable out of an escrow deposit fund in the original amount of \$60,000 held by CREA. The balance in the escrow fund totaled \$51,000 at December 31, 2013.

The general partner is entitled to receive an annual incentive partnership management fee of 85% of remaining cash flow, not to exceed 12% of the gross revenues of the Partnership on a noncumulative basis. No fee was earned in 2013.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO FINANCIAL STATEMENTS December 31, 2013

### NOTE 11 - RELATED PARTY INFORMATION (CONTINUED)

The Authority, its blended component unit Advantix Development, Inc. and Flaherty & Collins Development, LLC serviced as co-developers for the project. As compensation for their services, the developers are to receive \$1,200,000, which is to be paid at various times, as specified in the development agreement. If any developer fee remains outstanding as of December 31, 2027, the general partner is to make a capital contribution in the amount of the unpaid fee in order for Vision to pay the entire unpaid amount. As of December 31, 2013, \$927,000 remains unpaid.

### NOTE 12 - GOING CONCERN UNCERTAINTY

#### Component Unit – Lincoln Estates

Lincoln Estates Redevelopment Partnership, L.P. has suffered recurring losses from operations, has current obligations that greatly exceed its cash and cash equivalents, and is delinquent with many of its vendors; factors which raises substantial doubt about its ability to continue as a going concern. Lincoln Estates management and the general partner are working to increase occupancy and cut costs. In the interim, partners may need to advance funds to Lincoln Estates in order to meet its current obligations. The financial statements of Lincoln Estates do not include any adjustments that might result from the outcome of this uncertainty.

**THE HOUSING AUTHORITY OF THE  
CITY OF EVANSVILLE, INDIANA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (UNAUDITED)**

Year Ended December 31, 2013

<u>Asset Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(2-1) (Unfunded) Overfunded AAL (UAAL)</u>	<u>(1/2) Funded Ratio</u>	<u>(3) Covered Payroll</u>	<u>[(2-1)/3] UAAL as a Percentage of Covered Payroll</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
June 30, 2013	\$ 2,355,193	\$3,741,769	(\$1,386,576)	63%	\$ 2,494,519	56%	\$ 248,798	73%
June 30, 2012	2,100,639	\$3,798,243	(\$1,697,604)	55%	2,728,542	62%	230,394	59%
June 30, 2011	2,246,115	3,447,863	(1,201,748)	65%	2,666,116	45%	217,045	52%

**THE HOUSING AUTHORITY OF THE  
CITY OF EVANSVILLE, INDIANA**

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

*Independent Auditors' 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  
The Housing Authority of the City of Evansville, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States 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 business-type activities and the discretely presented component units of The Housing Authority of the City of Evansville, Indiana (the Authority), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 8, 2014. Our report includes a reference to other auditors who have audited the financial statements of Lincoln Estates Redevelopment Partnership, L.P. and Vision 1505, L.P., as described in our report on the Authority's financial statements. The financial statements of Lincoln Estates Redevelopment Partnership, L.P. and Vision 1505, L.P. were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our 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 our audit we did not identify any deficiencies in internal control that we 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 Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 8, 2014

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2013**

Federal Grantor	Federal CFDA Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Low Rent Public Housing	14.850a	\$ 1,708,612
Section 8 Housing Choice Vouchers (a)	14.871	8,673,570
Public Housing Capital Fund	14.872	1,007,269
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	14.877	34,509
Resident Opportunity and Supportive Services - Service Coordinators	14.870	<u>63,764</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$ 11,487,724</u></u>

(a) The Authority's expenditures include \$7,995,310 of Housing Assistance Payments.

*See accompanying notes to schedule of expenditures of federal awards.*

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended December 31, 2013

### NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Housing Authority of the City of Evansville, Indiana (the Authority), a governmental entity, under programs of the federal government for the year ended December 31, 2013. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Expenditures** reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indiana Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Independent Auditors' Reports on Compliance  
for Each Major Program and  
Internal Control over Compliance Required  
by OMB Circular A-133*

Board of Commissioners  
The Housing Authority of the City of Evansville, Indiana

**Report on Compliance for Each Major Federal Program**

We have audited The Housing Authority of the City of Evansville, Indiana's (the Authority) 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 Authority's major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 8, 2014

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2013**

**SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued [*unmodified, modified, adverse, or disclaimer*]: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   ✓   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes   ✓   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes   ✓   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   ✓   no
- Significant deficiency(ies) identified?   ✓   yes \_\_\_\_\_ none reported

Type of auditors' report issued on compliance for major programs [*unmodified, modified, adverse, or disclaimer*]: Unmodified

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

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Program</b>
14.871	Section 8 Housing Choice Vouchers
14.850a	Low Rent Housing Program

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

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

**THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended December 31, 2013**

**FINANCIAL STATEMENTS AUDIT FINDINGS**

None

**FEDERAL AWARDS PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Housing and Urban Development**

**2013-001 Low Rent Housing Program – CFDA #14.850a**

**Significant Deficiency – Eligibility**

*Criteria:* Per 24 CFR sections 5.212, 5.230, and 5.601 through 5.615, HUD requires that all applicants admitted to the program have income below a certain threshold. The Housing Authority is required to verify the income information provided by the applicant prior to their admission into the program.

*Condition and Context:* We selected 40 participant files for our testing of compliance with eligibility requirements. We noted that 1 of the participant files contained income documentation that was improperly excluded from the eligibility determination. Thus, the applicant was admitted to the program with income levels above the determined thresholds.

*Cause and Effect:* A significant deficiency in internal control over compliance exists, as all documentation received from the applicant was not included in the eligibility determination. Inadequate consideration of documentation could and did result in tenants being inappropriately admitted to the program.

*Recommendations:* The Authority should implement adequate internal controls and procedures to ensure all tenant files include the proper income verification.

*Management Response:* Management agrees with this finding. The recommended procedures will also be implemented as described above.

# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE, INDIANA

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended December 31, 2013

### U.S. Department of Housing and Urban Development

#### **2012-01 Section 8 Housing Choice Vouchers – CFDA #14.871**

##### **Significant Deficiency – Allowable Costs/Cost Principles**

*Condition:* This finding was a significant deficiency in internal control related to adequate documentation of the allocation of payroll costs. The auditors noted certain timesheets could not be located by management.

*Recommendations:* The auditors recommended that the Authority implement adequate internal controls and procedures to ensure that all timesheets are maintained for each employee for each pay period.

*Current Status:* Management has implemented the recommended procedures. No similar findings were noted in the 2013 audit.

#### **2012-02 Section 8 Housing Choice Vouchers – CFDA #14.871**

##### **Significant Deficiency – Special Tests – Selection from the Waiting List**

*Condition:* This finding was a significant deficiency in internal control related to the selection of new tenants from the Waiting List. One tenant file did not contain documentation of the date the tenant was admitted to the waiting list.

*Recommendations:* The auditors recommended that the Authority should implement adequate internal controls and procedures to ensure all files include the proper documentation to determine that the tenant was selected from the waiting list.

*Current Status:* Management is in the process of implementing the recommended procedures. A similar finding was noted in the 2013 audit.



# THE HOUSING AUTHORITY OF THE CITY OF EVANSVILLE



Rick Moore  
Executive Director

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500 Court Street  
Evansville, Indiana 47708

## **Board of Commissioners:**

Jerry Clark, Chairman  
Daphne Robinson, Vice Chairman  
Vanessa Brown, Commissioner  
Glenda B. Hampton, Commissioner  
David G. Hatfield, Commissioner  
Michael J. Szakaly, Commissioner  
Mildred Thacker, Commissioner

## **CORRECTIVE ACTION PLAN**

**Year Ended December 31, 2013**

U.S. Department of Housing and Urban Development

The Housing Authority of the City of Evansville, Indiana respectively submits the following corrective action plan for the year ended December 31, 2013.

Name and address of independent public accounting firm:

Katz, Sapper & Miller, LLP  
800 East 96<sup>th</sup> Street, Suite 500  
Indianapolis, IN 46240

Audit period: Year ended December 31, 2013

The findings from the schedule of findings and questioned costs for the year ended December 31, 2013, are discussed below. The findings are numbered consistently with the numbers assigned in the Schedule.

## **FINANCIAL STATEMENTS AUDIT FINDINGS**

None

## **MAJOR FEDERAL AWARDS PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS**

### **U.S. Department of Housing and Urban Development**

2013-001 Low Rent Housing Program – CFDA #14.850a

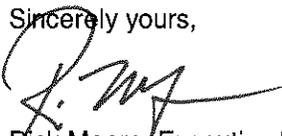
Significant Deficiency – Eligibility

*Recommendations:* The Authority should implement adequate internal controls and procedures to ensure all files include the proper income verification.

*Actions Taken:* We agree with the recommendations. We have a new manager over this property and have added an internal control/quality assurance function to periodically review files for accuracy and compliance.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Rick Moore at (812) 428-8500.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. Moore", written over the text "Sincerely yours,".

Rick Moore, Executive Director