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August 11, 2015

HUD Representative  
City of Gary Housing Authority  
578 Broadway  
Gary, IN 46402

We have reviewed the audit report prepared by Velma Butler & Company, LTD. Certified Public Accountants and Consultants, for the period April 1, 2011 to March 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. The Independent Public Accountant disclaimed an opinion on the financial statements included in the report due to inadequate accounting records and insufficient internal controls.

Furthermore, we call your attention to the findings in the report on pages 39 through 48. These findings consisted of material weaknesses and significant deficiencies in internal control over financial reporting; noncompliance with provisions of laws regulations, contract, and grant agreements which could have a direct and material effect on the determination of financial statement amounts; noncompliance with the requirements regarding allowable costs/cost principles of such a magnitude that the opinions on compliance for the Public and Indian Housing and Capital Fund Grant programs were modified; noncompliance with other requirements for major federal programs; and material weaknesses and a significant deficiency in internal control over compliance.

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

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

Final sent ref  
12/19/12

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THE HOUSING AUTHORITY OF THE  
CITY OF GARY, INDIANA

INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED  
MARCH 31, 2012  
INCLUDING SINGLE AUDIT REPORTS  
AND SUMMARY OF AUDITORS' RESULTS

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THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA

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**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban  
Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

We were engaged to audit the accompanying financial statements of the business-type activities of the Housing Authority of the City of Gary, Indiana (the Authority), for the year ended March 31, 2012 which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. Because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to provide a basis for an audit opinion.

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of the basic financial statements. The Authority's accounting records did not contain all the information necessary to produce complete financial statements.

Internal controls over recording of financial transactions were not sufficient to allow us to place reasonable assurance on the completeness of accounting records. Accordingly, it was not practicable for us to extend our audit procedures beyond the records available to us.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion of the basic financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

In accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* we have also issued our report dated November 20, 2012, on compliance with requirements applicable to each major program and internal control over compliance. That report is an integral part of an audit performed on the expenditure of federal awards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, on pages 3-7, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose for forming an opinion on the financial statements taken as a whole. The accompanying financial data schedules as of March 31, 2012, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements of the Housing Authority of the City of Gary, Indiana. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements in which we did not express an opinion.

A handwritten signature in cursive script, appearing to read "Velma Butler / Company Ltd.", written in dark ink.

Velma Butler & Company, Ltd.  
Chicago, Illinois

November 20, 2012

**HOUSING AUTHORITY of the CITY  
of GARY, INDIANA**  
578 Broadway  
Gary, Indiana 46402

To the Board of Commissioners of the  
The Housing Authority of the City of Gary, Indiana

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Housing Authority of the City of the Gary, Indiana's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on March 31, 2012.

We are pleased to submit the financial statements of the Housing Authority of the City of Gary, Indiana for the year ended March 31, 2012. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information, which complies with reporting requirements of the U.S. Department of Housing and Urban Development (HUD) and the Governmental Accounting Standards Board.

**FINANCIAL HIGHLIGHTS**

- Net assets at March 31, 2012, were \$81 million and remained relatively stable from the March 31, 2011, balance of \$81 million.
- Revenue decreased by \$4 million for fiscal year 2012. The decrease was primarily due to a decrease in HUD Capital Grants.
- Operating expenses, excluding depreciation, decreased by \$788 thousand or by 3.5%, from \$23.6 million at March 31, 2011 to \$22.8 at March 31, 2012.
- Net fixed assets were \$65 million at March 31, 2012, representing a decrease of \$2 million from the March 31, 2011, balance of \$67 million.
- Total liabilities decreased by \$627 thousand from \$9 million at March 31, 2011 to \$8.4 million, at March 31, 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority's basic financial statements are presented as an enterprise fund. Operations include two separate and distinct housing programs and various other affordable housing programs. The enterprise funds include the low rent housing program, the housing choice voucher program and financing mechanism of low and moderate income housing programs. The Low Rent Housing program is funded by income-based rents received from residents and operating subsidies and capital funds from HUD.

Under the housing choice voucher program, the Authority enters into housing assistance payment contracts with eligible landlords. HUD pays housing assistance payments, which includes tenant rents and management fees for operating the program.

The Authority also issued resources or provided loans for the construction of low income housing.

The financial statements are presented in three sections: management's discussion and analysis (this section), the basic financial statements and supplementary information.

The management's discussion and analysis section includes information on the past and future accomplishments of the Authority. It focuses on analysis of the financial statements and the improvements in the Authority's management.

The financial section provides both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements were prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. Enterprise Funds are used to account for the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

The bottom of the Statement of Revenue, Expenses and Changes in Net Assets reports on the Authority's net assets and how they have changed from the previous year. Net assets are the difference between the Authority's assets and liabilities, which is one way to measure the Authority's financial health or position.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996 and the United States Office of Management and Budget's (OMB) *Audits of States, Local Governments, and Non-Profit Organizations* as provided in OMB Circular A-133. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be issued with this report.

## **FINANCIAL ANALYSIS OF THE AUTHORITY**

### **Net Assets**

Net assets represent the difference between total assets and total liabilities. As shown in Table 1, the Authority's total net assets at March 31, 2012 remained relatively stable at \$81 million. This was less than a 1% decrease from the March 31, 2011 balance of \$81 million.

Total assets decreased by \$776 thousand or 0.9%, from \$90.3 million to \$89.5 million at March 31, 2012.

Total liabilities decreased by \$342 thousand or 3.8% from \$9 million at March 31, 2011 to \$8.7 million at March 31, 2012.

Current assets increased by \$1.5 million or 15.2%, in 2012 primarily due to increases in cash deposits. Capital and non-current assets decreased by \$2.3 million or 2.8% from \$80.1 million to \$77.8 million in 2012, primarily because of demolition costs.

**Table 1**  
**Gary Housing Authority's Net Assets**  
**(in thousand dollars)**

	<b>2012</b>	<b>2011</b>	<b>Difference</b>	<b>Percent Change</b>
Current Assets	\$ 11,654	\$ 10,119	\$ 1,535	15.2%
Capital Assets	65,434	67,843	(2,409)	-3.6%
Non-current Assets	12,405	12,307	98	0.8%
<b>Total Assets</b>	<b>89,493</b>	<b>90,269</b>	<b>(776)</b>	<b>-0.9%</b>
Current Liabilities	2,194	1,541	653	42.4%
Non-current Liabilities	6,478	7,473	(995)	-13.3%
<b>Total Liabilities</b>	<b>8,672</b>	<b>9,014</b>	<b>(342)</b>	<b>-3.8%</b>
Invested in Capital Assets, Net	65,434	67,843	(2,409)	-3.6%
Restricted	1,417	1,891	(474)	-25.1%
Unrestricted	13,970	11,521	2,449	21.3%
<b>Total Net Assets</b>	<b>80,821</b>	<b>81,255</b>	<b>(434)</b>	<b>-0.5%</b>
<b>Total Liabilities and Net Asset \$</b>	<b>\$ 89,493</b>	<b>\$ 90,269</b>	<b>\$ (776)</b>	<b>-0.9%</b>

**Change in Net Assets**

Net assets decreased because of a decrease in operating income and prior period adjustments. The change in net assets at March 31, 2012, was a decrease of approximately \$434 thousand to \$80.8 million compared to \$81.2 million at March 31, 2011.

As shown in Table 2, the Authority's total revenues, which included HUD Operating and Capital Grants, tenant rents, interest and other income decreased by \$7.3 million or 32.9%.

**Table 2**  
**Changes in Gary Housing Authority's Net Assets**  
**(in thousand dollars)**

	<b>2012</b>	<b>2011</b>	<b>Difference</b>	<b>Percent Change</b>
Operating Revenues	\$ 23,546	\$ 23,374	\$ 172	0.7%
Capital Grants	2,067	6,267	(4,200)	-203.2%
Non-Operating Revenue	(3,306)	4	(3,310)	100.1%
<b>Total Revenues</b>	<b>22,307</b>	<b>29,645</b>	<b>(7,338)</b>	<b>-32.9%</b>
Operating Expenses	22,854	23,553	(699)	-3.1%
Depreciation	1,470	1,471	(1)	-0.1%
<b>Total Expenses</b>	<b>24,324</b>	<b>25,024</b>	<b>(700)</b>	<b>-2.9%</b>
<b>Change in Net Assets</b>	<b>(2,017)</b>	<b>4,621</b>	<b>(6,638)</b>	<b>329.1%</b>
Total Net Assets, Beginning	81,255	76,634	4,621	5.7%
Prior Period Adjustments	1,583		1,583	
<b>Net Assets at End of Period</b>	<b>\$ 80,821</b>	<b>\$ 81,255</b>	<b>\$ (434)</b>	<b>-0.5%</b>

Also, as shown in Table 2, the Authority's total expenses decreased by \$700 thousand or 2.9% to approximately \$24.3 million at March 31, 2012, from \$25 million at March 31, 2011. Significant changes occurred in administrative expenses, utilities, ordinary maintenance, and protective services.



## Capital Assets

Capital assets decreased \$2.4 million from \$67.8 million to \$65.4 million as shown on the table below:

**Table 3**  
**Changes in Gary Housing Authority's Fixed Assets**

	March 31, 2011	Additions/(Deletions) and Transfers	March 31, 2012
Land and Structures	\$ 94,597,341	\$ (12,108,362)	\$ 82,488,979
Office Furniture and Equipment	4,041,433		4,041,433
Construction in Progress	35,524,600	2,067,146	37,591,746
Less Accumulated Depreciation	<u>(66,319,968)</u>	<u>7,631,622</u>	<u>(58,688,346)</u>
Total Fixed Assets	<u>\$ 67,843,406</u>	<u>\$ (2,409,595)</u>	<u>\$ 65,433,811</u>

Construction costs during the year totaled \$2,067,146, and depreciation totaled \$1,492,440. Demolitions during the period totaled \$12,108,362.

## BUDGETARY CONTROL

Budgetary control is exercised over programs through internal control methods that ensure compliance with legal provisions incorporated in annual program budgets approved by HUD and the Board of Commissioners. The activities of the Authority's enterprise fund are included in the annual budgeting process. Capital project budgets contained in the Authority's low rent housing program are adopted for the length of the capital projects then annualized to strengthen monitoring and completion benchmarks.

## MAJOR INITIATIVES

### Current Year:

The Gary Housing Authority continues to provide comprehensive service in the City of Gary to assure the existence of affordable housing for low to moderate income individuals, families, senior citizens, handicapped, and disabled individuals. Under the leadership of a dedicated Board of Commissioners and the hard work of true professionals in the field of affordable housing, the agency continues to thrive, considering the various challenges for the federally subsidized housing providers. Improvements have included working hard to enhance our operations internally and seeking external funds to support our residents whenever possible.

The Authority successfully:

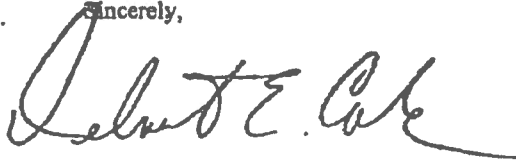
- met the requirements of the Public Housing Assessment Subsystem indicators in 2012,
- completed a vacancy reduction program and began a new one,
- completed the memorandum of agreement,
- completed a modernization program for the high rise developments,
- began sale of homeownership units, and
- applied for a choice neighborhood planning grant to redevelop Ivanhoe Gardens,

**Future Years:**

We intend to continue our current initiatives and work toward becoming a high performer, maintain an occupancy of 97 percent or better, and build a new development at Ivanhoe Gardens.

Additionally, we discontinued the use of a private firm to management for our properties. We have brought this function back in-house.

Sincerely,

A handwritten signature in black ink, appearing to read "Delvert Cole". The signature is written in a cursive style with a large initial "D" and a long horizontal flourish at the end.

**Delvert Cole**  
**Interim Executive Director**

**FINANCIAL STATEMENTS**

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUNDS  
 MARCH 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011)

EXHIBIT A

	ENTERPRISE FUNDS			2012 TOTAL	2011 TOTAL
	LOW RENT	SECTION 8	COMPONENT UNITS		
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 3,197,510	\$ 1,691,308	\$	\$ 4,888,818	\$ 4,257,098
Investments	216,733	214,968	4,935,915	5,367,616	5,160,854
Accounts Receivable, Net Allowance	817,192	2,857		820,049	240,286
Prepaid Expenses	115,480	2,082		117,562	113,008
Material Inventories	362,536			362,536	348,028
Current Portion os Notes Receivable		97,902		97,902	
Total Current Assets	4,709,451	2,009,117	4,935,915	11,654,483	10,119,274
<b>NON CURRENT ASSETS</b>					
Accrued Interest Receivable	1,899,545		184,609	2,084,154	1,830,074
Notes Receivable	8,337,060	1,484,053	500,000	10,321,113	10,476,916
Land, Structures and Equipment, Net	62,241,518		3,192,293	65,433,811	67,843,407
Total Non Current Assets	72,478,123	1,484,053	3,876,902	77,839,078	80,150,397
<b>TOTAL ASSETS</b>	<b>\$ 77,187,574</b>	<b>\$ 3,493,171</b>	<b>\$ 8,812,817</b>	<b>\$ 89,493,561</b>	<b>\$ 90,269,671</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ 546,383	\$ 179,234	\$	\$ 725,617	\$ 240,856
Accrued Liabilities	392,082			392,082	334,091
Escrow Deposits Liabilities			753,288	753,288	673,401
Notes Payable - Current	97,902			97,902	87,270
Bond Payable - Current			225,000	225,000	205,000
Total Current Liabilities	1,036,367	179,234	978,288	2,193,889	1,540,618
<b>NON-CURRENT LIABILITIES</b>					
Notes Payable - Non Current	1,484,053			1,484,053	1,576,964
Bond Payable Non-Current			2,910,000	2,910,000	4,066,455
Deferred Revenues - Accrued Interest	1,899,545		184,609	2,084,154	1,830,074
Total Non-Current Liabilities	3,383,598	-	3,094,609	6,478,207	7,473,493
Total Liabilities	4,419,965	179,234	4,072,897	8,672,096	9,014,111
<b>NET ASSETS</b>					
Unrestricted Net Assets	10,526,091	1,896,291	1,547,627	13,970,009	11,559,025
Restricted Net Assets		1,417,646		1,417,646	1,853,128
Investment in Fixed Assets	62,241,518	-	3,192,293	65,433,811	67,843,407
Total Net Assets	72,767,609	3,313,937	4,739,920	80,821,466	81,255,560
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 77,187,574</b>	<b>\$ 3,493,171</b>	<b>\$ 8,812,817</b>	<b>\$ 89,493,562</b>	<b>\$ 90,269,671</b>

See Accompanying Notes to the Financial Statements.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUND TYPE - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011)**

**EXHIBIT B**

	ENTERPRISE FUNDS			2012 TOTAL	2011 TOTAL
	LOW RENT	SECTION 8	COMPONENT UNITS		
<b>OPERATING REVENUES</b>					
Tenant Rents	\$ 3,256,609	\$	\$	\$ 3,256,609	3,178,572
HUD Operating Grants	8,776,078	11,246,954		20,023,032	20,033,825
Other Income	213,769	52,559		266,328	161,468
<b>TOTAL OPERATING REVENUES</b>	<b>12,246,457</b>	<b>11,299,513</b>	<b>-</b>	<b>23,545,970</b>	<b>23,373,865</b>
<b>OPERATING EXPENSES</b>					
Administrative Expenses	4,652,741	793,900		5,446,641	3,887,738
Tenant Services	31,273	-		31,273	216,159
Utilities Expenses	3,029,146			3,029,146	2,716,315
Ordinary Maintenance	2,476,055			2,476,055	4,196,827
Protective Services	710,008			710,008	1,119,093
General Expenses	599,818	5,671		605,489	942,714
Housing Assistance Payments	65,467	10,467,923		10,533,390	10,474,580
Depreciation Expense	1,469,794	2,385	20,261	1,492,440	1,470,849
<b>TOTAL OPERATING EXPENSES</b>	<b>13,034,303</b>	<b>11,269,879</b>	<b>20,261</b>	<b>24,324,442</b>	<b>25,024,275</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(787,846)</b>	<b>29,634</b>	<b>(20,261)</b>	<b>(778,473)</b>	<b>(1,650,410)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest Income	1,668	3,845		5,513	7,294
Gain/Loss on Disposition	(3,311,612)			(3,311,612)	(2,537)
HUD Capital Grants	2,067,146			2,067,146	6,266,911
Interfund Revenue	1,259,909			1,259,909	
Interfund (Expenses)	(1,089,765)	(170,144)		(1,259,909)	
<b>NON-OPERATING REVENUES (EXPENSES)</b>	<b>(1,072,654)</b>	<b>(166,299)</b>	<b>-</b>	<b>(1,238,953)</b>	<b>6,271,668</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,860,500)</b>	<b>(136,665)</b>	<b>(20,261)</b>	<b>(2,017,426)</b>	<b>4,621,258</b>
<b>NET ASSETS AT BEGINNING OF PERIOD</b>	<b>74,085,307</b>	<b>3,477,960</b>	<b>3,692,293</b>	<b>81,255,561</b>	<b>76,634,302</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>542,802</b>	<b>(27,358)</b>	<b>1,067,888</b>	<b>1,583,331</b>	
<b>NET ASSETS AT END OF PERIOD</b>	<b>\$ 72,767,609</b>	<b>\$ 3,313,937</b>	<b>\$ 4,739,920</b>	<b>\$ 80,821,466</b>	<b>\$ 81,255,561</b>

See Accompanying Notes to the Financial Statements.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENTS OF CASH FLOWS - ALL ENTERPRISE FUNDS  
FOR THE YEAR ENDED MARCH 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011)**

**EXHIBIT C**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Tenants and Others	\$ 23,493,411	\$ 23,040,894
Payments to Employees	(4,580,328)	(4,331,543)
Payments to Vendors and Suppliers	(17,607,853)	(19,815,994)
Net Cash Provided by Operating Activities	<u>1,305,230</u>	<u>(1,106,643)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase)/Sale of Investments		
Interest Income	5,513	7,295
Net Cash (Used In) Provided by Investing Activities	<u>5,513</u>	<u>7,295</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Grants	2,067,146	6,266,909
(Purchase)/Sale of Fixed Assets	(679,023)	(509,998)
Investment in Construction Activities	(2,067,146)	(6,266,909)
Net Cash (Used In) Provided by Capital and Related Activities	<u>(679,023)</u>	<u>(509,998)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>631,720</u>	<u>(1,609,346)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR</b>	4,257,098	5,866,444
<b>CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR</b>	<u>\$ 4,888,818</u>	<u>\$ 4,257,098</u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used by Operating Activities</b>		
Net Income	\$ (778,473)	\$ (1,650,410)
Depreciation	1,492,440	1,470,849
Prior Period Adjustment/ Correction of Errors	(1,583,331)	
Add back Loss on Disposal	3,311,612	
Change in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	(579,763)	991,225
(Increase)/Decrease in Interest Receivable	(254,080)	(711,014)
(Increase)/Decrease in Prepaid Expenses	(4,554)	(39,311)
(Increase)/Decrease in Material Inventory	(14,508)	0
(Increase)/Decrease in Notes Receivable	57,902	(755,065)
Increase/(Decrease) in Accounts Payable	484,761	(1,584,989)
Increase/(Decrease) in Accrued Liabilities	57,991	(109,376)
Increase/(Decrease) in Escrow Deposits Liabilities	79,887	131,382
Increase/(Decrease) in Notes Payable Current	30,632	(39,122)
Increase/(Decrease) in Accrued Interest Payable	254,080	711,014
Increase/(Decrease) in Non-Current Liabilities	(1,249,366)	478,174
Net Cash Provided by Operating Activities	<u>\$ 1,305,230</u>	<u>\$ (1,106,643)</u>

**SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES**

NONE

See Accompanying Notes to the Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Note 1 - Organization and Program Description**

The Housing Authority of the City of Gary, Indiana (the Authority) is a municipal corporation created and organized under the Housing Authority Act of the State of Indiana to engage in the acquisition, development, leasing and administration of a low-rent housing program and other federally assisted programs.

The governing body of the Authority is its Board of Commissioners (Board) composed of seven members appointed by the Mayor of the City of Gary (City). The Board appoints an Executive Director to administer the affairs of the Authority. The Authority is not considered a component unit of the City.

The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering housing programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities and to provide funds to assist the Public Housing Authorities (PHAs) in financing the acquisition, construction, and/or leasing of housing units; to make housing assistance payments; and to make annual contributions (subsidies) to PHAs for the purpose of maintaining the low rent character of the local housing program.

The Gary Housing Authority is a separate governmental entity created for the purpose of constructing, maintaining, and operating public housing and providing rental assistance to low and moderate income persons. The majority of its funding is provided by the Department of Housing and Urban Development (HUD). All funds and programs are included in these statements.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements present the various program activities of the Authority. The Authority's assets, liabilities and results of operations are segregated into public housing and grant programs as follows:

**Low Rent Housing** - The low rent housing program provides subsidized housing to low income residents. The Authority is the owner of public housing units located throughout the City. The Authority receives revenue from dwelling rental income and an operating subsidies provided by HUD. Capital Grants and Development (Hope VI) Funds, are also provided by HUD and are used to improve the construction, physical condition, management and operation of existing public housing developments. The low rent housing program is reported as an enterprise fund.

**Section 8 Programs** - The Authority participates in the housing choice voucher, and moderate rehabilitation programs. These programs are designed to provide privately owned, decent, safe and sanitary housing to low income families. The Authority provides assistance to low income persons seeking decent, safe and sanitary housing by subsidizing rents between such persons and owners of existing private housing. Under the programs, the Authority enters into housing assistance payment contracts with eligible landlords. To fund the program, the Authority enters into annual contribution contracts with HUD for the receipt of rental subsidies. The Housing Choice Voucher and the moderate rehabilitation programs are also reported as enterprise funds.

**Modernization and Development** - Substantially all additions to land, buildings, and equipment are funded through Capital Grant Fund Program or Hope VI - Development Program. These programs add to, replace or materially upgrade deteriorated portions of the Authority's housing units. Funding is provided through programs established by HUD.



**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**A. Reporting Entity**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

These principles define the reporting entity of the primary government, as well as its component units. Component units are separate legal organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based upon the application of these criteria, the reporting entity includes the Gary Housing Authority LLC, Gary Housing Development Corporation, Small Farms Development Corporation (Small Farms), and Fifth Avenue Housing Development Corporation, as component units.

The basis criterion for including a legally separate organization as a component unit is the degree of financial accountability the Authority has over the organization.

In June 1999, the Government Accounting Standards Board unanimously approved Statement 34, Basic Financial - and Management Discussion and Analysis (MD&A) section which provided an analysis of the overall financial positions and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

**Component Units**

**Gary Housing Authority, LLC - (GHA - LLC)**

Gary Housing Authority, LLC (GHA) was established on September 4, 2003 as a for profit limited liability company. GHA was formed to acquire and/or manage real property. The LLC was formed by the Authority, its sole member, for the purpose of assisting in the development of a 131 unit multifamily housing project leased to Duneland Village Apartments, L.P., under Section 542(c) of the Housing and Community Development Act of 1992, defined under the provisions of section 221(d)(4) of The National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2004. The management building was completed in August 2005. Apartments are rented to a mixture of low-income and market-rate tenants. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**Gary Housing Development Corporation- (GHDC)**

Gary Housing Development Corporation (GHDC) was established on July 9, 2003 as a nonprofit company to acquire and/or manage real property. GHDC was formed by the GHA, its sole participant, for the purpose of assisting in the development of a 123 unit multifamily housing project leased to Horace Mann Associates, L.P., under section 542(c) of the Housing and Development Act of 1992, defined under the provisions of section 221(d)(4) of the National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2006. Apartments are rented to a mixture of low income and market rate tenants. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Fifth Avenue Housing Development Corporation – (FAHDC)**

Fifth Avenue Housing Development Corporation (Fifth Avenue) was formed in May 1983 to assist in the development of housing projects within the meaning of Section 3(6) of the United States Housing Act of 1937. Fifth Avenue issued Construction Loan Notes and Mortgage Revenue Bonds for both Gary NSA III and NSA V. The Construction Loan Notes and Mortgage Revenue Bonds were both retired in 2001. Apartments were rented to a mixture of low income and market rate tenants. The Authority subsequently entered into a lease with NSA III and V to manage its Section 8 program. The Section 8 management has subsequently been discontinued and the corporation has been inactive. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**Small Farms Development Corporation – (SFDC)**

Small Farms was formed in March 1979 to engage in the development of housing projects within the meaning of Section 3(6) of the United States Housing Act of 1937. Small Farms provided interim construction financing and permanent mortgage financing for the construction of 13 two-story buildings consisting of 200 units for low income families, and a community building on 20 acres of land in Gary, Indiana. Small Farms provided financing to fund the project by issuing Mortgage Revenue Bonds in April 1979. Apartments are rented to a mixture of low income and market rate tenants. The bonds were defeased in May 1993. Government backed securities were purchased as security for the loans. The bonds are managed by an independent administrator. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Authority are organized and operated on the basis of fund accounts. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounts segregate funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

*Enterprise Funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time they are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

The Authority has elected not to adopt provisions of GASB 20, paragraph 7, which state that all FASB statements and interpretation issued after November 30, 1989, can be applied.

**C. Fund Accounting**

Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Authority maintains the following fund types and account groups:

- Public Housing Units consist of HUD -financed public owned by the Authority. Funds include low-rent housing programs, capital grant program and Hope VI - development program.
- Section 8 programs consist of HUD provided rental housing assistance programs, where the rents are paid directly to landlords. Funds include the housing choice voucher and moderate and substantial rehabilitation programs.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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- Component unit funds consisted of the financing activities of the construction of mixed income housing units and the issuance of bonds to develop affordable housing.

**Proprietary Funds** - The Authority's operations are accounted for in a single *Enterprise Fund*. *Enterprise Funds* account for those operations that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

**Budgets** - Budgets are adopted for applicable enterprise funds on a basis consistent with accounting principles generally accepted in the United States of America. The Authority is not legally required to adopt budgets for such funds. However, the Authority has contractual requirements to adopt budgets for applicable HUD programs. All annual appropriations lapse at fiscal year-end. Multi-year appropriations for capital projects (all capital projects are currently accounted for in Proprietary Funds) are adopted for the length of the project and/or program and are annualized for accounting purposes. Additional information on the Authority's budgetary requirements and controls is disclosed in Note 2.

**Management's Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Net Assets** - The Authority has adopted GASB Statement No. 33. In accordance with GASB Statement No. 33, capital contributions are recognized as revenue when expenditures are made and amounts become subject to claim for reimbursement. Depreciation recorded on property, plant and equipment acquired with funds recorded as contribution in years prior to 2000 is calculated on a straight-line basis over the estimated useful life of the related assets, charged to operations, and reclassified to the related contributed capital account. The net book values of assets disposed of are written off against contributed capital if no proceeds from the disposal are received. Depreciation recorded on the property, plant and equipment is charged to operations.

Net assets include the following:

- Invested in capital, net of related debt - The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds that are directly attributable to the acquisition, construction or improvement of these capital assets.
- Restricted for federal programs - the component of net assets that reports the amount of revenue from a federal or state award for service programs in excess of expenditures. These funds are restricted for the use of the related federal or state program.
- Unrestricted - The difference between the assets and liabilities that is not reported in net assets invested in capital, net of related debt or net assets restricted for federal and state programs.

**Inter-program Due to/from** - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Federal Awards** - Federal grants for reimbursable programs are recognized as revenue in the year the related program expenditure occurs. Awards received prior to meeting revenue recognition criterion are recorded as deferred revenue. Operating grants are recorded as revenue in the year earned.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Investments** - The Authority has estimated the fair values of its financial investments using available market information and other valuation methodologies in accordance with GASB Statement No. 31. Federal statutes authorize investment of excess federal funds in instruments guaranteed by the federal government. The Authority has adopted this policy for all invested funds, whether or not they are federal funds.

**Inventories** - Inventories are stated at the lower of cost or market.

**Prepaid Expenditures** - Payments made to vendors for services that will benefit periods beyond March 31, 2012, are recorded as prepaid items.

**Compensated Absences** - The Authority allows full-time regular employees to accumulate the following compensated balances:

- Vacation is accrued based on length of employment, ranging from 13 days per year after 12 months of continuous service to 25 days after 20 years of continuous service. Unused vacation is paid upon termination.
- Sick pay is granted at the rate of one day per month. Upon resignation or retirement employees are paid for unused sick leave as follows:

1. 5 through 14 years	50 percent
2. 15 through 29 years	75 percent
3. 30 or more years	90 percent

**Fixed Assets** - The Authority capitalizes fixed assets with a cost of more than \$5,000 and a useful life of one year or more. Proprietary fund types focus on capital maintenance. Accordingly, land, structures and equipment are recorded in the enterprise fund, which acquires such assets.

Fixed assets are stated at cost or at estimated historical cost. The cost of maintenance and repairs is charged to operations as incurred and improvements are capitalized. Fixed assets are depreciated over their useful lives using the straight-line method of depreciation as follows:

Building	40 years
Building Modernization	10-27.5 years
Infrastructure	40 years
Office Furniture and Equipment	5-7years
Automobiles	5 years
Computers	3 years

**Concentration of Risk**

During the year ended March 31, 2012, the Authority received approximately 86 percent of its revenue from HUD.

**Financial Information for 2011**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2011, from which the summarized information was derived.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31, 2012**

**Note 2 - Budget Information**

The Authority is required by contractual agreements to adopt annual operating budgets for all its enterprise funds receiving federal expenditure awards. The Director of Finance prepares all budgets on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. Operating budgets are not prepared for capital projects activity, which is included in the low rent housing enterprise fund. Budgets are submitted by the Authority's Executive Director and approved by resolutions of the Board of Commissioners.

**Enterprise Funds** - All enterprise fund operating budgets are prepared for the upcoming year by the end of the current fiscal year and are approved by the Authority's Board of Commissioners and/or HUD. Appropriations for capital projects are authorized at the fund and expenditure level, and effective budgetary control is achieved through periodic budgeting and reporting requirements.

**Note 3 - Cash and Cash Equivalents**

Cash and cash equivalents totaled \$4,888,818 at March 31, 2012. Amounts are maintained in commercial checking accounts and are readily available. HUD regulations require authorities to maintain funds in accounts that are fully collateralized by United States government securities. Cash amounts in excess of the \$250,000 insured by the government were collateralized by government securities and held in the pledging financial institutions' trust departments in the Authority's name.

Of the total cash on hand at March 31, 2012, \$1,750,822 was restricted, as follows:

Tenant Security Deposits	\$	122,648
Housing Assistance Payments		1,417,646
FSS Escrow		14,194
Other Restricted		196,334
<b>Total</b>	<b>\$</b>	<b><u>1,750,822</u></b>

**Note 4 - Investments**

At March 31, 2012, investments totaled \$5,367,616 which consisted of certificates of deposits, money market accounts and government securities. The fair values and unrealized gain/loss at March 31, 2012, are summarized as follows:

<b>Description</b>	<b>Category 1</b>		
	<b>Book Value</b>	<b>Market Value</b>	<b>Unrealized Gain/(Loss)</b>
Certificates of Deposit	\$ 431,701	\$ 431,701	\$ -
Money Market	753,288	753,288	-
Government Securities -	4,182,627	4,182,627	-
<b>Total</b>	<b>\$ <u>5,367,616</u></b>	<b>\$ <u>5,367,616</u></b>	<b>\$ <u>-</u></b>

Category 1 - Certificates of deposit investments are insured by the Federal Depositor Insurance Corporation and are further fully collateralized by government security and held in the pledging financial institution's trust department in the Authority's name.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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Money market and government security accounts are amounts held in escrows invested by the trustee (The Bank of New York Mellon Trust Company, N.A) in federal securities and U.S. Treasury Obligations money market funds. The Authority is currently not exposed to custodial credit risk or concentration risk, as defined in GASB 40. Restricted investments totaled \$4,935,915 as follows:

<u>Description</u>	<u>Money Market</u>	<u>Government Securities</u>	<u>Total</u>
Small Farms - Bonds	\$	\$ 4,182,627	\$ 4,182,627
GHA LLC - Required Reserve	753,288		753,288
Total	\$ 753,288	\$ 4,182,627	\$ 4,935,915

The Small Farms Development Corporation (Small Farms) - (a nonprofit corporation created as an agency and instrumentality of the Authority) investments are restricted for future bond payments. Small Farms issued mortgage revenue bonds (FHA Insured Mortgage - Section 8 Assisted Projects) totaling \$5,465,000 on April 1, 1979.

On October 15, 1991, Small Farms entered into an agreement with the Midwest Commerce Banking Company to act as escrow deposit trustee. Investments totaling \$4,182,627 were deposited with the trustee. Escrows were required to be invested in Federal securities. Bond holder payments are to be made June 1 and December 1 until maturity of December 1, 2021

**Gary Housing Authority, LLC**

The Gary Housing Authority, LLC. (GHA LLC) a limited liability company, created as an instrumentality of the Authority, entered into an agreement in September 2003, with the developers of Duneland Village, to fund the operating reserve escrow of \$258,000 and the operating reserve of \$250,000, required by the Indiana Housing Finance Authority, as a condition of tax credits. At March 31, 2012, escrow deposit amounts totaled \$753,288.

**Note 5 - Accounts Receivable**

At March 31, 2012, accounts receivable totaled \$820,049 and consisted of the following:

Accounts Receivable – Tenants Net	\$ 365,177
Accounts Receivable – Interfund	454,872
Total	\$ <u>820,049</u>

The Authority reviews the accounts receivable periodically.

Total accounts receivable inter-fund was \$454,872, at March 31, 2012, and was offset by the accounts payable inter-fund. Inter-fund accounts have been eliminated in the financial statements

**Note 6 - Prepaid Expenses**

Prepaid expenses totaled \$117,562 at March 31, 2012, and consisted of prepaid insurance and vendor services.

**Note 7 - Material Inventories - Net**

Material inventories totaled \$362,536 at March 31, 2012. Material inventories are stated at the lower of cost or market. Material inventories were not reviewed for obsolescence or adjusted during the 2012 fiscal year.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Note 8 – Notes Receivable**

Notes receivable at March 31, 2012, totaled \$10,419,014 and represented amounts due from various component units.

Total notes receivable along with accrued interest are shown below:

<u>Entity</u>		<u>Notes</u>		<u>Interest</u>
Duneland Village Associates, L.P.	\$	3,116,000	\$	1,653,145
Horace Mann Associates, L.P.		5,221,060		246,400
Gary Housing Development Corporation		500,000		184,609
Section 8 - Inspector general audit		1,581,954		
Total Notes Receivable	\$	<u>10,419,014</u>	\$	<u>2,084,154</u>

The Authority established the various entities to fulfill its goal of affordable housing. The component units loaned funds to developers to build these units. Notes receivable primarily consist of amounts due from developers of mixed income properties. The repayment of these notes is based on net cash flow. As of March 31, 2012, no payments had been made.

**The Housing Authority of the City of Gary, Indiana (GHA) Duneland Village Associates, L.P.**

The Authority provided a 57 year construction loan of \$3,116,000, to Duneland Village Associate LLC. The loan is secured by a second priority leasehold mortgage and security agreement. The note bears interest at a rate of 5.08% compounded annually until all amounts are paid in full.

These funds originated from the HOPE VI grant. During the life of the note, principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the first Mortgage Loan, (ii) costs of sale or refinancing, and (iii) any resyndication or refinancing proceeds reinvested in the Project are unavailable for distributions. Duneland pays 55% of the first \$140,000 of Net Available Cash Flow, adjusted for inflation each year, and 75% of the Net Available Cash Flow of the Project in excess of \$140,000. The loan matures on September 1, 2060. The amount outstanding at March 31, 2012 is \$3,116,000 plus accrued interest of \$1,653,145.

**The Housing Authority of the City of Gary, Indiana (the Authority) – Horace Mann Associates, L.P.**

The Authority provided a 45.5 year construction loan of \$5,221,060, to Horace Mann Associates, L. P. The loan matures on December 31, 2051. The interest rate of the loan was 8% annually, during the construction and noninterest bearing thereafter. Maximum interest during construction was \$246,400.

The loan is secured by a third priority leasehold mortgage and security agreement. Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the First Mortgage Loan and the Second Mortgage Loan, (ii) costs of sale or refinancing, (iii) any resyndication of refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
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Thirty-six percent of Net Available Cash Flow is paid annually as long as the Second Mortgage is outstanding. The Partnership will pay the Authority 57% of Net Available Cash Flow of the Project.

The loan matures on December 31, 2051. Principal outstanding at March 31, 2012 was \$5,221,060. Accrued interest was \$246,400.

**Gary Housing Development Corporation (GHDC) – Horace Mann Associates, L.P.**

GHDC (a wholly owned not for profit organization) provided a 39.5 year construction loan of \$500,000 to Horace Mann Associates, L. P. The loan matures on December 31, 2046. The interest rate of the loan was 8.0% annually, during the construction and 4.57% thereafter. Maximum interest during construction was \$23,600.

Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds. Until maturity, 21% of Net Available Cash Flow is paid annually. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expense for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the project, less (i) repayment of the First Mortgage Loan, (ii) costs of sale or refinancing, (iii) any resyndication of refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

The loan matures on December 31, 2047. The amount outstanding at March 31, 2012 is \$500,000. Accrued interest totaled \$184,609.

**HUD IG Audit**

Based on an audit performed by the office of the HUD Inspector General, the Authority has entered into an agreement to repay disallowed costs back to the Section 8 Program. According to the agreement, the Low Rent program must make annual reimbursement payments through December 31, 2053. At March 31, 2012 the Section 8 receivable was \$1,581,954.

**Note 9 - Land, Structures and Equipment**

The changes in land, structures and equipment for the year ended March 31, 2012, were as follows:

	<u>March 31, 2011</u>	<u>Additions, Transfers and Dispositions</u>	<u>March 31, 2012</u>
<b>Enterprise Fund</b>			
Land and Structures	\$ 94,597,341	\$ (12,108,362)	\$ 82,488,979
Office Furniture and Equipment	4,041,433		4,041,433
Construction in Progress	35,524,600	2,067,146	37,591,746
(Less) Accumulated Depreciation	<u>(66,319,968)</u>	<u>7,631,622</u>	<u>(58,688,346)</u>
Total Fixed Assets	<u>\$ 67,843,406</u>	<u>\$ (2,409,594)</u>	<u>\$ 65,433,811</u>

Changes in land, structures and equipment during the audit period consisted of capital improvement costs incurred, equipment purchased and depreciation expense. Fixed Assets are recorded at cost. Depreciation is recorded over the useful lives of the assets using the straight-line method of depreciation. Depreciation expenses for 2012 totaled \$1,469,794. Construction in Progress costs were \$2,067,074. Demolitions totaled \$12,108,362.



**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31, 2012**

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**Note 10 - Accounts Payable**

Accounts payable totaled \$725,617, at March 31, 2012, which consisted of the following:

Accounts Payable - Vendors	\$	122,086
Tenants Security Deposits		122,648
Other Payables		26,011
Interfund Payable		454,872
Total	\$	<u>725,617</u>

Total accounts payable inter-fund was \$454,872, at March 31, 2012, and was offset by the accounts receivable inter-fund. Inter-fund accounts have been eliminated in the financial statements

**Note 11 - Accrued Liabilities**

Accrued liabilities totaled \$392,082, at March 31, 2012, and represented amounts due for accrued salary, vacation and sick leave as follows:

Salary	\$	58,825
Other Accrued Liabilities		152,656
Compensated Absences - Current		180,601
Total	\$	<u>392,082</u>

It is the Authority's policy to compensate employees for accumulated sick and vacation leave upon termination. The Authority recognizes leave taken as a current year's salary expense during the year in which the leave is taken. Both vacation and sick pay is accrued for and recognized in the financial statements as an accrued liability.

**Note 12 - Notes Payable**

The Authority has entered into an agreement with the Office of the HUD Inspector General to repay costs disallowed because of an audit. At March 31, 2012 the balance outstanding was \$1,581,954, payable as follows:

Current	\$	97,902
Non-current		1,484,053
Total	\$	<u>1,581,954</u>

Future payment amounts are s follows:

<u>Year</u>	<u>Principal</u>
2013	\$ 92,912
2014	57,902
2015	57,902
2016	57,902
Thereafter	1,315,336
Total	\$ <u>1,581,954</u>

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31, 2012**

**Note 13 - Escrow Reserves**

The Gary Housing Authority, LLC. (GHA LLC) a limited liability company, created as an instrumentality of the Authority, entered into an agreement in September 2003, with the developers of Duneland Village, to fund the operating reserve escrow of \$258,000 and the operating reserve of \$250,000, required by the Indiana Housing Finance Authority, as a condition of tax credits. At March 31, 2012, escrow deposits amounts totaled \$753,288.

**Note 14 - Bonds Payable**

The Small Farms an agency of the Authority has bonds outstanding totaled \$3,135,000 and interest payable outstanding totaled \$1,411,180. Total amount due for bonds and interest is \$4,546,180, at March 31, 2012.

Interest earned and payable is 7.4 percent. The Bonds mature in 2021. As discussed in note 4, the Authority has accumulated escrow deposits of \$4,182,627, toward payment of principal and interest.

Current and non-current payments are as shown below:

Current	\$	225,000
Non-current		<u>2,910,000</u>
Total	\$	<u><u>3,135,000</u></u>

Future payment amounts are as follows:

Year	Principal	Interest	Total
2013	\$ 225,000	\$ 231,990	\$ 456,990
2014	240,000	215,340	455,340
2015	255,000	197,580	452,580
2016	275,000	178,710	453,710
2017	295,000	158,360	453,360
Thereafter	<u>1,845,000</u>	<u>429,200</u>	<u>2,274,200</u>
Total	\$ <u><u>3,135,000</u></u>	\$ <u><u>1,411,180</u></u>	\$ <u><u>4,546,180</u></u>

**Note 15 - Deferred Revenues**

Deferred revenues totaled \$2,084,154 and consist of deferred interest income due from the various notes receivable. See note 8.

Due to the uncertainty created by the length of time preceding the payment of interest and the provisions of certain note that interest payments are contingent upon the existence of surplus cash, interest earned has been deferred.

**Note 16 - Employee Benefit Plans**

The Authority established a defined contribution plan administered by a third-party administrator. The Plan covers all regular employees who work for at least 90 days. The maximum contribution is 4% of the employee's monthly salary. Participants' benefits are fully vested after five years of participation and are determined solely by the provisions of the Government Agency Retirement Plan and Trust.

Besides retirement benefits, the Plan offers life insurance where participants receive 100% of one year's salary up until the age of 65 when the benefit is reduced by 35%.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

The normal retirement date is the participants' 65<sup>th</sup> birthday. Participants may elect to retire anytime after their 55<sup>th</sup> birthday, at which time they are 100% vested regardless of years of service. The amount a participant receives at early, normal, or postponed retirement is based on the amount accumulated in their account. Although no employee contributions are required, employees may make voluntary contributions not to exceed 10% of their annual salary. The Authority's total payroll expense was \$4,034,125. Pension expense for the year was \$135,865. The Authority made all required contributions to the Plan.

Plan assets totaled \$2,681,195, at March 31, 2012, as follow

Beginning Balance, April 1, 2011	\$	2,544,404
Contributions		360,790
Withdrawals		(314,244)
Earnings		90,964
Ending Balance, March 31, 2012	\$	<u>2,681,915</u>

**Note 17 - Operating Lease Commitments**

The Authority has an operating lease for office equipment (copiers) that expired during the fiscal year 2012. The lease contains a renewal options and requires the Authority to pay all operating costs such as maintenance and insurance. Total costs for leases were \$80,400 during 2012. In April 2012, the Authority renewed their lease agreement for copiers through fiscal year 2016. The future minimum lease payments are as follows:

<b>Year Ending</b>		<b>\$ Amount</b>
<b><u>March 31,</u></b>		
2012		72,369
2013		72,369
2014		72,369
2015		72,369
2016		<u>72,369</u>
Total	\$	<u>361,845</u>

**Note 18 - Commitments and Contingencies**

The Authority receives financial assistance from federal government agencies in the form of grants and operating subsidies. Disbursements of funds received under these programs require compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the Authority. The Authority also has certain contingent liabilities resulting from litigations, claims, and commitments incident to the ordinary course of business. Management expects the final resolution of such contingencies will not have a material adverse effect on the financial position of the Authority.

**Note 19 - Administrative Fees**

The Authority receives an "Administrative Fee" as part of each of the annual contributions contract from HUD to cover the costs (including overhead) of administering the Housing Choice Voucher Housing Assistance programs.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Note 20 - Allocation of Cost**

The Authority uses the direct cost method to recognize the expenses of each project and program. The central office charges the projects and programs a management fee. This fee is recognized as income for the central office and as an expense for the projects and programs. These fees between the projects and central office are eliminated during the reporting process. Fees from the programs are not eliminated and are recognized as revenue to central office and an expense to the program. Management considers this to be an equitable method of allocation.

**Note 21 - Subsequent Events**

Management has performed an analysis of activities and transactions subsequent to March 31, 2012, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended March 31, 2012. Management has performed their analysis through November 20, 2012, the date the financial statements were issued. The Authority has not evaluated events occurring after November 20, 2012 in these financial statements.

**Note 22 - Prior Period Adjustment**

The prior periods adjustment consist on amounts to corrects accounts, unbooked adjusting entries from 2011 and the write off of fixed assets.

**SUPPLEMENTAL INFORMATION**

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2012**

**EXHIBIT D**

FEDERAL GRANTOR	PROGRAM OR AWARD CFDA #	FEDERAL AWARDS EXPENDED	TOTAL PROGRAM EXPENDITURES
<b>Major Programs - U S Department of Housing and Urban Development</b>			
<u>Direct Program</u>			
Low Rent Housing Program			
Low Rent Housing Programs	14.850	\$ 6,870,674	\$ 10,515,636
Capital Fund Stimulus Grant	14.885	798,062	798,062
Capital Fund Program	14.872	<u>3,174,488</u>	<u>3,174,488</u>
Total Low Rent Housing Programs		10,843,224	14,488,186
Housing Assistance Payment Programs			
Housing Choice Voucher Program	14.871	10,893,051	11,044,421
Moderate Rehabilitation	14.856	<u>353,903</u>	<u>378,423</u>
Total Housing Assistance Program Payments		11,246,954	11,422,844
Total U S Department of Housing and Urban Development (Major Programs)		22,090,178	25,911,030
<b>Total All Programs - U S Department of Housing and Urban Development</b>		<u>\$ 22,090,178</u>	<u>\$ 25,911,030</u>

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the City of Gary, Indiana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Authority's consolidated financial statements.

The schedule summarizes the federal funds expended by the Authority under the programs of the federal government during the year ended March 31, 2012. The awards are classified into major and non-major program categories in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments and Non-Profit Organizations*. The schedule of expenditures of federal awards displays the Authority's expenditures charged to federal programs for the year ended March 31, 2012, and should be read in conjunction with the Authority's consolidated financial statements.

**Note 2 – Sources of Funding**

The schedule includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government, as well as federal funds passed-through to the Authority by primary recipients. The Authority provided no part of its direct grant federal dollars to sub-recipients.

**Note 3 – Type of Funding**

The schedule includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government, as well as federal funds passed-through to the Authority by primary recipients. The Authority provided no part of its direct grant federal dollars to sub-recipients.

The Authority did not receive any non-cash assistance from federal funds, had no federal insurance, nor have any loan or loan guarantees outstanding as of March 31, 2012.

Housing Authority of the City of Gary (IN011)  
 GARY, IN  
 Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133 Fiscal Year End: 03/31/2012

	Project Total	14,885 Formula Capital Fund Stimulus Grant	14,871 Housing Choice Vouchers	6 Component Units	14,856 Lower Income Housing Assistance Program, Section 8 Moderate Rehabilitation	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$2,167,710		\$158,670		\$114,992	\$893,351	\$3,334,723		\$3,334,723
112 Cash - Restricted - Modernization and Development					\$0				
113 Cash - Other Restricted	\$14,294		\$1,417,646		\$0		\$1,431,940		\$1,431,940
114 Cash - Tenant Security Deposits	\$122,155				\$0		\$122,155		\$122,155
115 Cash - Restricted for Payment of Current Liabilities		\$0	\$1,576,316	\$0	\$114,992	\$893,351	\$4,888,818	\$0	\$4,888,818
100 Total Cash	\$2,304,159	\$0	\$1,576,316	\$0	\$114,992	\$893,351	\$4,888,818	\$0	\$4,888,818
121 Accounts Receivable - PHA Projects					\$0				
122 Accounts Receivable - HUD Other Projects	\$0				\$0		\$0		\$0
124 Accounts Receivable - Other Government					\$0				
125 Accounts Receivable - Miscellaneous	\$419,615				\$0		\$419,615		\$419,615
126 Accounts Receivable - Tenants	-\$54,437				\$0		-\$54,437		-\$54,437
126.1 Allowance for Doubtful Accounts - Tenants	\$0				\$0		\$0		\$0
126.2 Allowance for Doubtful Accounts - Other			\$97,902		\$0	\$0	\$97,902		\$97,902
127 Notes, Loans, & Mortgages Receivable - Current					\$0				
128 Fraud Recovery					\$0				
128.1 Allowance for Doubtful Accounts - Fraud					\$0				
129 Accrued Interest Receivable	\$1,895,545			\$184,609	\$0		\$2,084,154		\$2,084,154
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$2,264,723	\$0	\$97,902	\$184,609	\$0	\$0	\$2,547,234	\$0	\$2,547,234
131 Investments - Unrestricted			\$214,968		\$0	\$216,733	\$431,701		\$431,701
132 Investments - Restricted					\$0		\$4,935,915		\$4,935,915
135 Investments - Restricted for Payment of Current Liability					\$0				
142 Prepaid Expenses and Other Assets	\$109,609	\$0	\$2,082		\$0	\$5,871	\$117,562		\$117,562
143 Inventories	\$480,981				\$0	\$16	\$480,997		\$480,997
143.1 Allowance for Obsolete Inventories	-\$118,461				\$0	\$0	-\$118,461		-\$118,461
144 Inter Program Due From	\$122,561	\$0			\$2,858	\$329,453	\$454,872	-\$454,872	\$0
145 Assets Held for Sale					\$0				
150 Total Current Assets	\$5,163,572	\$0	\$1,891,268	\$5,120,524	\$117,850	\$1,445,424	\$13,738,638	-\$454,872	\$13,283,766
161 Land	\$1,683,364				\$0		\$1,683,364		\$1,683,364
162 Buildings	\$74,496,622				\$0		\$74,496,622		\$74,496,622
163 Furniture, Equipment & Machinery - Dwellings	\$2,426,803			\$3,243,804	\$0	\$2,747	\$5,673,354		\$5,673,354
164 Furniture, Equipment & Machinery - Administration	\$3,842,542		\$135,465		\$0	\$513,736	\$4,491,743		\$4,491,743
165 Leasehold Improvements	\$16,407				\$0	\$1,803	\$18,210		\$18,210
166 Accumulated Depreciation	-\$58,134,853		-\$135,465	-\$51,511	\$0	-\$341,853	-\$58,663,682		-\$58,663,682
167 Construction in Progress	\$37,734,200				\$0		\$37,734,200		\$37,734,200
168 Infrastructure	\$0				\$0		\$0		\$0
160 Total Capital Assets, Net of Accumulated Depreciation	\$62,065,085	\$0	\$0	\$3,192,293	\$0	\$176,433	\$65,433,811	\$0	\$65,433,811
171 Notes, Loans and Mortgages Receivable - Non-Current	\$8,337,060			\$500,000	\$0		\$10,321,113		\$10,321,113
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due			\$1,484,053		\$0				





Housing Authority of the City of Gary (IN011)  
GARY, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 03/31/2012

	Project Total	14.885 Formula Capital Fund Stimulus Grant	14.871 Housing Choice Vouchers	6 Component Units	14.856 Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$3,255,065				\$0	\$1,544	\$3,256,609		\$3,256,609
70400 Tenant Revenue - Other					\$0				
70500 Total Tenant Revenue	\$3,255,065	\$0	\$0	\$0	\$0	\$1,544	\$3,256,609	\$0	\$3,256,609
70600 HUD PHA Operating Grants	\$8,731,078	\$45,000	\$10,899,051		\$353,903		\$20,023,032		\$20,023,032
70610 Capital Grants	\$1,314,084	\$753,062			\$0		\$2,067,146		\$2,067,146
70710 Management Fee					\$0	\$1,114,635	\$1,114,635	-\$1,114,635	\$0
70720 Asset Management Fee					\$0				
70730 Book Keeping Fee					\$0	\$145,274	\$145,274	-\$145,274	\$0
70740 Front Line Service Fee					\$0				
70750 Other Fees					\$0				
70700 Total Fee Revenue					\$0	\$1,259,909	\$1,259,909	-\$1,259,909	\$0
70800 Other Government Grants					\$0				
71100 Investment Income - Unrestricted			\$0		\$0	\$527	\$527		\$527
71200 Mortgage Interest Income					\$0				
71300 Proceeds from Disposition of Assets Held for Sale					\$0				
71310 Cost of Sale of Assets					\$0				
71400 Fraud Recovery	\$939				\$0				
71500 Other Revenue	-\$3,311,612				\$52,559	\$207,554	\$261,052		\$261,052
71600 Gain or Loss on Sale of Capital Assets	\$700		\$3,834		\$11	\$441	\$4,986		\$4,986
72000 Investment Income - Restricted	\$9,990,254	\$798,062	\$10,896,885	\$0	\$406,473	\$1,475,251	\$23,566,925	-\$1,259,909	\$22,307,016
70000 Total Revenue	\$1,052,919	\$798,062	\$10,896,885	\$0	\$406,473	\$1,475,251	\$23,566,925	-\$1,259,909	\$22,307,016
91100 Administrative Salaries	\$24,649		\$2,736		\$0	\$932,214	\$1,985,133		\$1,985,133
91200 Auditing Fees	\$958,491		\$145,301		\$10,843	\$48,042	\$75,427		\$75,427
91300 Management Fee	\$131,274		\$12,000		\$2,000		\$1,114,635	-\$1,114,635	\$0
91310 Book-keeping Fee	\$2,615				\$0	\$707	\$3,322		\$3,322
91400 Advertising and Marketing	\$696,350				\$0	\$306,621	\$1,002,971		\$1,002,971
91500 Employee Benefit Contributions - Administrative	\$147,977		\$8,334		\$0	\$165,302	\$321,613		\$321,613
91600 Office Expenses	\$43,315		\$1,044		\$0	\$148,098	\$192,457		\$192,457
91700 Legal Expense	\$32,715				\$0	\$1,856	\$34,571		\$34,571
91800 Travel	\$790,915		\$760,607		\$0	\$275,625	\$1,831,147		\$1,831,147
91810 Allocated Overhead	\$3,881,220	\$0	\$930,022	\$0	\$16,843	\$1,878,465	\$6,706,550	-\$1,259,909	\$5,446,641
91900 Other					\$0				
91000 Total Operating - Administrative	\$19,691				\$0		\$19,691		\$19,691
92000 Asset Management Fee					\$0				
92100 Tenant Services - Salaries	\$490				\$0		\$490		\$490
92200 Relocation Costs	\$11,092				\$0		\$11,092		\$11,092
92300 Employee Benefit Contributions - Tenant Services					\$0				
92400 Tenant Services - Other					\$0				





HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 STATEMENT OF CAPITAL FUND PROGRAM COSTS - UNCOMPLETED  
 FOR THE YEAR ENDED MARCH 31, 2012

EXHIBIT F

ANNUAL CONTRIBUTION CONTRACT PHASES IN36PO11 - 708-99, 501-00, 501-01, 501-02 and 501-03
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	708 -99	501-00	501-01	501 -02	501-03	Total
Funds Approved	\$ 6,379,924	\$ 4,574,808	\$ 6,108,798	\$ 5,328,723	\$ 4,092,421	\$ 26,484,674
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>2,599,227</u>	<u>23,505,994</u>
Excess\Deficit of Funds Approved	\$ <u>-</u>	\$ <u>1,485,486</u>	\$ <u>• -</u>	\$ <u>-</u>	\$ <u>1,493,194</u>	\$ <u>2,978,680</u>
Funds Advanced	\$ 6,379,924	\$ 4,574,808	\$ 6,108,798	\$ 5,328,723	\$ 4,092,421	\$ 26,484,674
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>2,599,227</u>	<u>23,505,994</u>
Excess\Deficit of Funds Advanced	\$ <u>-</u>	\$ <u>1,485,486</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,493,194</u>	\$ <u>2,978,680</u>

- Capital Fund Program costs for Phases IN 36 - 708-99, IN 36 - 501-00, IN 36 -501-01, IN 36 - 501-02, and 501-03 are shown above.
- There were no cost additions during the audit period and accordingly no costs were audited by Velma Butler & Company, Ltd.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 STATEMENT OF CAPITAL FUND PROGRAM COSTS - UNCOMPLETED  
 FOR THE YEAR ENDED MARCH 31, 2012

EXHIBIT G

ANNUAL CONTRIBUTION CONTRACT  
 PHASES IN36PO11 - 501-04, 501-05, 501-06, 501-07, and 501-08

	501-04	501-05	501-06	501-07	501-08	Total
Funds Approved	\$ 4,791,323	\$ 4,567,821	\$ 1,559,846	\$ 4,738,332	\$ 4,640,817	\$ 15,506,816
Funds Expended	<u>4,791,323</u>	<u>4,567,821</u>	<u>1,559,846</u>	<u>4,738,332</u>	<u>4,640,817</u>	<u>15,506,816</u>
Excess\(\Deficit) of Funds Approved	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Funds Advanced	\$ 4,791,323	\$ 4,567,821	\$ 1,559,846	\$ 4,738,332	\$ 4,640,817	\$ 15,506,816
Funds Expended	<u>4,791,323</u>	<u>4,567,821</u>	<u>1,559,846</u>	<u>4,738,332</u>	<u>4,640,817</u>	<u>15,506,816</u>
Excess\(\Deficit) of Funds Advanced	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

- Capital Fund Program costs for Phases In 36 501-04, IN 36 - 501-05, IN 36 -501-06, IN 36 - 501-07, and 501-08 are shown above.
- Cost additions during the audit period on the above projects totaled \$727,474, as follows: IN-36 501-05 were \$-0-, IN-36 501-06 were \$-0-, IN-36-501-06 were \$-0-, IN-36-501-07 were \$0nd IN-36-501-08 were \$727,474.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
 STATEMENT OF CAPITAL FUND PROGRAM COSTS - UNCOMPLETED  
 FOR THE YEAR ENDED MARCH 31, 2012

EXHIBIT H

ANNUAL CONTRIBUTION CONTRACT PHASES IN36PO11 - 501-09, CFRG-09, 501-10, and 501-11
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	501-09	CFRG-09	501-10	501-11	Total
Funds Approved	\$ 4,616,580	\$ 5,874,358	\$ 4,601,056	\$ 3,798,787	\$ 18,890,781
Funds Expended	<u>2,750,478</u>	<u>5,874,358</u>	<u>1,380,317</u>	<u>949,697</u>	<u>10,954,850</u>
Excess\Deficit of Funds App	\$ <u>1,866,102</u>	\$ <u>-</u>	\$ <u>3,220,739</u>	\$ <u>2,849,090</u>	\$ <u>7,935,931</u>
Funds Advanced	\$ 2,750,478	\$ 5,874,358	\$ 1,380,317	\$ 949,697	\$ 10,954,850
Funds Expended	<u>2,750,478</u>	<u>5,874,358</u>	<u>1,380,317</u>	<u>949,697</u>	<u>-</u>
Excess\Deficit of Funds Adv	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

1 Capital Fund Program costs for Phases In 36 501-09, IN 36 - CFRG-09, IN -36-501-10, and IN 36 - 501 -11 are shown above.

2 Cost additions during the audit period for these phases totaled \$3,240,244 were as follows: IN-36 501-09 \$879,011, IN-36 CFRG-09 \$798,062, IN-36-501-10 were \$613,474, and IN-36-501-11 were \$949,697.



**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
In Accordance with Government Auditing Standards**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

We have audited the financial statements of the business-type activities, of the Housing Authority of the City of Gary, Indiana (the Authority) as of and for the year ended March 31, 2012, and have issued our report thereon dated November 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 misstatements on a timely basis. A significant deficiency is control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting 2012-1, 2012-2, 2012-3 2012-5, 2012-6, and, 2012-7.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also



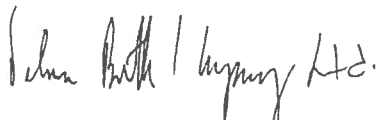
considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2012-1, 2012-2, and 2012-3, to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Velma Butler & Company, Ltd.  
Chicago, Illinois

November 20, 2012



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

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

**Compliance**

We have audited the compliance of the Housing Authority of the City of Gary, Indiana (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in items 2012-1, 2012-2 and 2013, in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding allowable costs/cost principles that are applicable to its Public and Indian Housing Grant and Capital Fund Grant Program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-4, 2012-6, 2012-7, 2012-8 and 2012-9.

**Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal

controls 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.

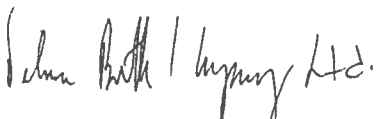
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 reasonable possibility that material noncompliance with a type of compliance requirements of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, 2012-5 to be significant deficiency.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Velma Butler & Company, Ltd.  
Chicago, Illinois

November 20, 2012

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED MARCH 31, 2012

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Section I – Summary of Auditor's Results

*Financial Statements*

The type of report issued: **Disclaimer**

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Deficiencies identified not considered to be material weaknesses?  
 Yes  None reported

Noncompliance material to financial statements noted?  
 Yes  None reported

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Deficiencies identified not considered to be material weaknesses?  
 Yes  None reported

Type of auditor's report issued on compliance for major programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?  
 Yes  No

Identification of major program:

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Low Rent Housing
14.872	Capital Fund Programs

Section 8 Housing Assistance Programs

14.871	Housing Choice Voucher Program
14.186	Moderate Rehabilitation

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 GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Section II – Financial Statement Findings**

*Material Weakness*

**Finding 2012-1 Weaknesses in Internal Control**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to the source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with the hard documentation,
- Documentation supporting expenditures by the private management firm was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable prior year's adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated
- Accounts payable, notes payable, and revenue and expense account balances did not agree with the underlying support,
- Component Units accounting transactions for the year had not been recorded.

The Authority hired a private management firm - the Woodlawn Community Development Corporation (WCDC) to manage its developments and to maintain the appropriate support for amounts charged to each development until July 2012. The WCDC was to prepare an operating budget detailing charges for each development. Expenditures were to be made in accordance with the budget and appropriate support was to be maintained. However, support for various expenditures was not provided.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations, and the provisions of contract and grant agreements.

**Authority Action Plan:**

We agree that the prior management company did not provide us with support or documentation for several entries that were made into the accounting records. We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control environment. We believe the recommendations received from the above financial teams will assist us in correcting the issues identified.

**Finding 2012-2 - Accounting Software**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system which could produce complete financial statements during fiscal year 2012.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority review, reconcile and properly enter all account balance information, into its accounting system.

**Authority's Action Plan:**

The Authority is working with financial contractors hired by HUD, other financial consultants hired by the Authority and the internal IT staff to make corrections and changes to the YARDI system. Once these corrections and changes are made, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012-3 - Financial Statement Adjustments**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Recommendation:**

We recommend that the Authority review of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control process. Part of the recommendation will be information related to reconciling all accounts on a timely basis during the year and at year end and ensuring that the accounting personnel understand how to properly record transaction within the accounting system.

**Finding 2012 -4 -Assets Management Fees**

The Authority overcharged management fees by \$2,277,171 in the income and expenses accounts.

Section 6.1 through 6.6 in the Supplement to the HUD Handbook 7475.1 Revision, Change -1 discuss the method for calculating management fees

**Recommendation:**

We recommend that the Authority calculate management fees in accordance with HUD's criteria and record only the amounts listed in the Handbook.

**Authority's Action Plan:**

Going forward the authority will calculate management fees in accordance with HUD's criteria and record only the amounts listed in the Handbook.

**Finding 2012 -5-Inventory of Materials**

The Authority performed a physical inventory, as required by HUD, but did not maintain or assign a record of value. Therefore the values assigned per the financial records did not reflect the true inventory values.

Inventory records should reflect inventory quantities on-hand, along with the underlying values. Underlying records should reconcile to the general ledger and differences should be investigated and reconciled in a timely manner.

HUD (2235.7 REV-2) requires that all owned and rented reportable property must be inventoried once a year. Capitalized, non-capitalized, and rented reportable property shall be inventoried concurrently.

**Recommendation:**

The Authority should conduct a materials inventory annually and maintain inventory records, which reflect quantities on-hand with the value of the inventory. If it is not possible to establish a system for all of materials, then inventory controls should be implemented for high dollar value items while the Authority continues to seek a solution for the entire inventory.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Authority's Action Plan:**

The Authority has been working to move all inventory from the warehouse to the AMP's and to obtain a correct accounting of inventory on hand. The Authority is also working with financial contractors hired by HUD and other financial consultants hired by the Authority to ensure that the YARDI inventory module is installed and operating correctly. The financial team will also provide recommendations on how inventory should be handled going forward. Once these changes are completed, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012 -6 Questioned Costs**

The Authority did not provide sufficient documentation required to support 13 transactions tested. During our testing of transactions we noted the lack of supporting documentation for 13 out of the 40 items tested, totaling \$107,219.

Eleven (11) of the 13 items, totaling \$88,326, where support was not received, occurred during five months of the year when Woodlawn (WCDC) handled the AMP expenditures.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority takes the appropriate steps to ensure that all balances are properly supported by invoices and or other documentation.

**Authority's Action Plan:**

All of the expenditures noted occurred when the WCDC managed the property. There was a lack of internal controls over records and supporting documentation. We requested this information on several occasions and were not successful in obtaining it.

Once this function was brought back in house, support was provided for all transactions requested.

**Finding 2012-7- Payroll Reporting**

The Authority was not able to reconcile the 941 quarterly payroll reports to the salary expense recorded in the general ledger at March 31, 2012. The WCDC did submit the 941 quarterly reports for the quarters ending June 30, 2011 or September 30, 2011. These reports should reconcile in total to the general ledger system for the quarter and fiscal year.

The Federal government requires 941 reports as part of the payroll function to ensure proper reporting and payment of wages and payroll taxes. The effect of not reconciling these reports back to the general ledger could result in undetected errors in wages and payroll taxes.

**Recommendation:**

The Authority should ensure that all payroll reports are prepared accurately and can be reconciled to the general ledger system.



**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Authority's Action Plan:**

WCDC is no longer employed by the Authority, therefore the lack of quarterly 941 reports and the lack of reconciliations should not longer be an issue.

**Section III – Federal Award Findings and Questioned Costs**

***Material Weakness***

**Finding 2012-1 Weaknesses in Internal Control**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with hard documentation,
- Documentation supporting expenditures by the private management firm was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable's prior year adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus, escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated,
- Accounts payable, notes payable, revenue and expense account balances did not agree with the underlying support,
- Component Units accounting transactions for the year had not been recorded.

The Authority hired a private management firm - the Woodlawn Community Development Corporation (WCDC) to manage its developments and to maintain the appropriate support for amounts charged to each development until July 2012. The WCDC was to prepare an operating budget detailing charges for each development. Expenditures were to be made in accordance with the budget and appropriate support was to be maintained. However, support for various expenditures was not provided.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the

Authority's assets, liabilities, and net assets in accordance with laws, regulations and the provisions of contract and grant agreements.

**Authority Action Plan:**

We agree that the prior management company did not provide us with support or documentation for several entries that were made into the accounting. We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control environment. We believe the recommendations received from the above financial teams will assist us in correcting the issues identified.

**Finding 2012-2 - Accounting Software**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system that could produce complete financial statements during fiscal year 2012.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority reviews, reconciles and properly enters all account balance information in its accounting system at year-end.

**Authority's Action Plan:**

The Authority is working with financial contractors hired by HUD, other financial consultants hired by the Authority and the internal IT staff to make corrections and changes to the YARDI system. Once these corrections and changes are made, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Finding 2012-3 - Financial Statement Adjustments**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority reviews of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control process. Part of the recommendation will be information related to reconciling all accounts on a timely basis during the year and at year end and ensuring that the accounting personnel understand how to properly record transaction within the accounting system.

***Significant Deficiencies***

**Finding 2012 -4 -Asset Management Fees**

The Authority overstated management fees by \$2,277,171 in the income and expense account.

Section 6.1 through 6.6 in the Supplement to the HUD Handbook 7475.1 Revision, Change -1 discuss the method for calculating management fees

**Recommendation:**

We recommend that the Authority calculate management fees in accordance with HUD's criteria.

**Authority's Action Plan:**

Going forward, the authority will calculate management fees in accordance with HUD's criteria and record only the amounts listed in the Handbook.

**Finding 2012 -5-Inventory of Materials**

The Authority performed a physical inventory, as required by HUD, but did not maintain and assign a records of assigned values. Therefore the values assigned per the financial records did not reflect the true inventory values.

Inventory records should reflect inventory quantities on-hand, along with the underlying values. Underlying records should reconcile to the general ledger and any differences should be investigated and reconciled in a timely manner.

HUD (2235.7 REV-2) requires that all owned and rented reportable property must be inventoried once a year. Capitalized, non-capitalized, and rented reportable property shall be inventoried concurrently.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

---

**Recommendation:**

The Authority should conduct a materials inventory annually and maintain inventory records which reflect quantities on-hand with the value of the inventory. If it is not possible to establish a system for all of materials, then inventory controls should be implemented for high dollar value items while the Authority continues to seek a solution for the entire inventory.

**Authority's Action Plan:**

The Authority has been working to move all inventory from the warehouse to the AMP's and to obtain a correct accounting of inventory on hand. The Authority is also working with financial contractors hired by HUD and other financial consultants hired by the Authority to ensure that the YARDI inventory module is installed and operating correctly. The financial team will also provide recommendations on how inventory should be handled going forward. Once these changes are completed, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012-6 Deficiencies in Tenant File Documentation**

During our audit of 20 low rent housing tenant files we noted that the Authority did not always maintain the required documentation in its tenant files. We noted that one file did not contain a signed application.

HUD Regulations requires the Authority to maintain complete and accurate tenant files, which consist of annual re-certification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to include all the required forms.

**Authority's Action Plan:**

The Asset Manager will work with the Amp Managers to ensure that all files are reviewed for accuracy.

**Finding 2012-7 - Housing Quality Standard**

We noted that the Authority did not always follow the annual HQS inspections and quality control re-inspection requirements.

We tested twenty tenant files with leased units that failed the Housing Quality Standard (HQS) inspection during the fiscal year.

- One required re-inspection was not done within 30 calendar days after the initial inspection failed and the Authority did not stop the HAP after the cited HQS deficiencies were not corrected by the owner.
- Three required re-inspections were not done within 30 calendar days after the initial inspection failed.

HUD requires the Authority to inspect leased units at least annually to determine if the units meet Housing Quality Standards and the Authority must conduct quality control re-inspections. Per 24 CFR Section 982.158(d), the Authority must prepare a unit inspection report.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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The Authority must conduct quality control re-inspections within 30 calendar days after the initial inspection failed and abate Housing Assistant Payment (HAP) beginning no later than the first of month following the specified correction period.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to include all the required forms.

**Authority's Action Plan:**

The Authority will ensure that the Section 8 Department conducts quality control re-inspections within 30 calendar days after the initial inspection failed and abate Housing Assistant Payment (HAP) beginning no later than the first of the month following the specified correction period.

**Finding 2012-8 - Deficiencies in Low Rent Waiting List**

We noted that the Authority did not follow the waiting list policies and procedures required in the Authority's Admission and Occupancy Policy.

We tested twenty new applicant files that were placed in the low-rent program waiting list during fiscal year 2012.

Out of twenty new applicant files tested:

- Four applicants' unit sizes were different than the unit sizes reported on the waiting list and their unit sizes were not determined on the criteria stated from the Authority's unit assignment policy.
- Three applicant files could not locate them or were not available for us to review.
- Three application files did not contain amount and source of annual income as one of the applicants' essential information under the Authority's Waiting List Placement Guidelines.
- One application file did not contain application number and applicant's signature.

Title 24 CFR 960.206(e) provides that the method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant was selected in accordance with the Authority's Admission and Occupancy Policy. The waiting list format should contain sufficient information to allow the PHA to properly select families who are next eligible for the housing program according to the selection policy described in the administrative plan.

The Authority must maintain waiting lists for selecting applicants; process tenant applications properly to ensure all applications were processed in accordance with HUD requirements.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to maintain the waiting list properly.

**Authority's Action Plan:**

The Asset Manager will work with the Amp Managers to ensure that the waiting list is reviewed for accuracy.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Finding 2012-9- Procurement, Suspension, and Debarment**

We noted that the contract a was awarded to the lowest scored firm instead of highest scored firm that was chosen by the Evaluation Committee.

We tested the eight contract files and noted that one out of eight contracts tested, the contractor selection was not corroborated with the supporting documents contained in the contract file. The professional service was purchased under the request for qualifications (RFQ) wherein the competitive bidders are evaluated based solely on their qualifications. The reason for the selection of the firm was not noted

Title 24 CFR Part 85.36 provides that the PHA is responsible for ensuring that goods and services are procured competitively and in accordance with established procurement rules and regulations.

**Recommendation:**

We recommend that the Authority follows the procurement policies for contractor selecting in accordance with Federal procurement standards, State and local laws.

**Authority's Action Plan:**

In instances where the highest score is not selected, the procurement department will document in the file as to the reason why the bidder with highest score was not selected.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**SUMMARY STATUS OF FINDINGS**

<u>Prior Year Findings</u>	<u>Status</u>	<u>Page Number</u>
1. Weaknesses in Internal Control, 2011-1	Open	49
2. Accounting Software, 2011-2	Open	49
3. Financial Statement Adjustments, 2011-3	Open	49
4. Payroll Reporting, 2011-4	Open	50
5. Inventory of Materials, 2011-5	Open	50
6. Deficiencies in Tenant File Documentation, 2011-6	Open	51
7. Housing Quality Standard , 2011-7	Open	51

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Finding 2011-1 Weaknesses in Internal Control**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express an opinion on the financial statements.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations, and the provisions of contract and grant agreements.

**Status: Open.** See finding 2012- 1

**Finding 2011-2 Accounting Software**

The Authority does not maintain adequate accounting records to provide sufficient information for the preparation of the basic financial statements. The Authority's accounting records did not constitute a system that could produce complete financial statements during fiscal year 2011. The Authority used three separate accounting software systems to record accounting transactions. Information for the three systems had to be combined to produce agency-wide financial statements. The use of three systems led to numerous erroneous entries including unidentifiable and irreconcilable balances.

**Recommendation:**

We recommend the Authority maintain a single financial management system that serves program management, budgetary, and accounting needs.

**Status: Open.** See finding 2012- 2

**Finding 2011 3 Financial Statement Adjustments**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority review of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.



**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Status:** Open. See finding 2012- 2

**Finding 2011 -4 Payroll Reporting**

The Authority was not able to reconcile the 941 quarterly payroll reports to the salary expense recorded in the general ledger at March 31, 2011. These reports should reconcile in total to the general ledger system for the quarter and fiscal year.

The Federal government requires 941 reports as part of the payroll function to ensure proper reporting and payment of wages and payroll taxes. The effect of not reconciling these reports back to the general ledger could result in undetected errors in wages and payroll taxes.

**Recommendation:**

The Authority should ensure that all payroll reports are prepared accurately and can be reconciled to the general ledger system.

**Status:** Open. See finding 2012- 7

**Finding 2011 -5 Inventory of Materials**

The Authority did not perform a physical inventory, as required by HUD, and therefore did not maintain accurate inventory records of materials in the Authority's warehouse. The general ledger balance did not reflect the inventory at March 31, 2011. Furthermore, detailed reconciliations and investigations of differences were not performed.

Inventory records should reflect inventory quantities on-hand. Underlying records should reconcile to the general ledger and differences should be investigated and reconciled in a timely manner.

HUD (2235.7 REV-2) requires that all owned and rented reportable property must be inventoried once a year. Capitalized, non-capitalized, and rented reportable property shall be inventoried concurrently.

**Recommendation:**

The Authority should conduct a materials inventory annually and maintain inventory records that reflect quantities on-hand. If it is not possible to establish a system for all of materials, then inventory controls should be implemented for high dollar value items while the Authority continues to seek a solution for the entire inventory.

**Status:** Open. See finding 2012- 5

**Finding 2011-6 Deficiencies in Tenant File Documentation**

During our audit of tenant files, we noted that the Authority did not always maintain the required documentation in its tenant files. We noted the following during our testing of twenty-five tenant files:

- One file did not contain a HUD-50058, Family Report.
- Two files did not include signed applications.

HUD requires the Authority to maintain complete and accurate tenant files, which consist of annual re-certification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2012**

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**Recommendation:**

We recommend that the Authority strengthen its record documentation procedures to include all the required forms.

**Status: Open.** See finding 2012- 6

**Finding 2011-7                      Housing Quality Standard**

We tested ten tenant files with leased units that failed the Housing Quality Standard (HQS) inspection during the fiscal year. We noted that all ten files did not contain a unit re-inspection report or evidence that required repairs were completed. The Authority must require the owner to correct any HQS deficiencies within 30 calendar days or within a specified Authority extension.

HUD requires the Authority to inspect leased units annually to determine if the units meet Housing Quality Standards and the Authority must conduct quality control re-inspections. Per 24 CFR Section 982.158(d), the Authority must prepare a unit inspection report.

**Recommendation:**

We recommend that the Authority strengthen its record documentation procedures to include all the required forms.

**Status: Open.** See finding 2012- 7

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF COMPLIANCE WITH  
SECTION 8 MANAGEMENT ASSESSMENT PROGRAM  
FOR THE YEAR ENDED MARCH 31, 2012**

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Velma Butler & Company, Ltd. audited the Authority's compliance with the Section 8 Housing Management Assessment Program and did not notice any instances of non-compliance.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF COMPLIANCE WITH  
PUBLIC HOUSING ASSESSMENT SYSTEM PROGRAM  
FOR THE YEAR ENDED MARCH 31, 2012**

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Velma Butler & Company, Ltd. audited the Authority's compliance with the Public Housing Assessment System Program and did not note any material instances of noncompliance.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
ADJUSTING JOURNAL ENTRIES  
FOR THE YEAR ENDED MARCH 31, 2012**

Adjusting Entries	Debit	Credit
<b>1</b>		
112200 Tenant Accounts Receivables	4,210.50	
22400 Prepaid Rents	55,099.43	
310000 Dwelling Rent		52,728.39
211600 Homeownership	2,196.14	
211000 Accounts Payable - Vendors		4,630.50
366000 Operating Transfers In	10,880.41	
211500 Other Accounts Payable	98,421.06	
112500 Account Receivable-HUD CGP		4,833.00
340100 Revenues HUD PHA Grants		87,845.00
442000 Materials and Supplies	3,126.00	6,057.40
443000 Maintenance Contracts	8,577.37	81,317.83
280902 Unrestricted Net Assets	54,901.21	
To agree balance to supporting documentation.		
<b>2</b>		
114400 Accrued Interest Receivable	230,560.13	
226010 Deferred Interest Duneland		230,560.13
To record accrued interest on Notes Receivable		
<b>3</b>		
417301 Property Management Fees		2,277,170.75
369013 Property Management Fee	2,277,170.75	
To agree management to HUD criteria		
<b>Reclass 1</b>		
342000 Capital Funds - Soft Costs	142,444.01	
342100 Capital Funds - Hard Costs		142,444.01
To agree soft costs to documentation		
<b>Section 8 Reclass 1 -</b>		
113100 Notes Receivable - Current	40,000.00	
115800 Notes Receivable - Non Current		40,000.00
To agree current portion of Notes Receivable		
369013 Property Management Fee	170,144.00	
369013 Property Management Fee		156,144.00
369014 Bookkeeping Fee		14,000.00
To reclass management fee to section		
<b>Component Units</b>		
<b>1</b>		
114400 Accrued Interest Receivable	184,608.50	
226010 Deferred Interest Duneland		184,608.50
To record accrued interest on Notes Receivable		
<b>2</b>		
280603 Net Assets - Component Units	21,348.00	
113000 Notes Receivable		21,348.00
To Correct Notes Receivable Balance		
<b>3</b>		
117100 Escrow Fund - Small Farms-Interest Earned	309,758.36	
117101 Expense Fund-Small Farms 801- Earning		7,131.65
234100 Bonds Payments	745,000.04	
280902 Unrestricted Net Assets		1,047,626.75
To record revenue earned on Bond Escrow Accounts and Bond Payment		
<b>4</b>		
117103 Bony Res Escrow - LLC 303	253,856.35	
117104 Bony Res Escrow - LLC 303		6,221.34
229000 Non Current Other Reserves		211,508.00
280902 Unrestricted Net Assets		36,127.01
To record revenue earned on Reserves Escrow Accounts		
<b>5</b>		
148600 Infrastructure - Duneland	2,723,543.00	
280600 Investment in Fixed Assets		2,723,543.00
To record component unit infrastructure Investment		
	7,335,845.26	7,335,845.26