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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, CPA
State Examiner

THE HOUSING AUTHORITY OF THE
CITY OF GARY, INDIANA
INDEPENDENT AUDITORS' REPORT,
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION,
INCLUDING SINGLE AUDIT REPORTS
FOR THE YEAR ENDED
MARCH 31, 2014

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA

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INDEPENDENT AUDITOR'S REPORT

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
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and each major fund of the Housing Authority of the City of Gary, Indiana (the Authority), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of 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.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to attain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion of these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and we do not, express an opinion on the supplementary information.

Other Information

Our audit was conducted for the purpose for forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanied financial data schedules and the schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information such as financial data schedules and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the accompanying supplementary information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Summarized Comparative Information

We previously audited the Authority's 2013 financial statements, and we expressed a disclaimer of opinion on those audited financial statements dated December 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in dark ink, appearing to read "Velma Butler / Company Ltd.", is written over a light blue horizontal line.

Velma Butler & Company, Ltd.
Chicago, Illinois

February 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**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
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, 2014.

We are pleased to submit the financial statements of the Housing Authority of the City of Gary, Indiana for the year ended March 31, 2014. 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.

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.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments 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.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units.

FINANCIAL HIGHLIGHTS

- Net Position at March 31, 2014, was \$73.8 million a decreased of \$2 million from the March 31, 2013 total of \$75.7 million.
- Revenue increased by \$1.9 million for fiscal year 2014. The increase was primarily due to an increase in HUD Capital Grants.
- Operating expenses, excluding depreciation, decreased by \$1.1 million or by 4.9%, from \$23.2 million at March 31, 2013 to \$22.1 million at March 31, 2014.
- Assets decreased by \$885 thousand from \$83.1 million at March 31, 2013 to \$82.2 million at March 31, 2014.
- Capital assets were \$62.7 million at March 31, 2014, a decrease of \$1 million from the March 31, 2013, balance of \$63.7 million primarily because of depreciation.
- Liabilities increased by \$1.1 million or 14.2% from \$7.3 million at March 31, 2013 to \$8.4 million at March 31, 2014.

USING THIS REPORT

The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating, or otherwise changing in a dramatic manner.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information detailing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts,

cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities.

These financial statements report on the functions of the Authority that are principally supported by intergovernmental revenues. The Authority's function is to provide decent, safe, and sanitary housing to low-income and special needs populations, which is primarily funded with grant revenue received from the U.S. Department of Housing and Urban Development (HUD).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements are presented as a single enterprise fund whose operations include the low rent and the housing choice voucher and a component unit as follows.

Fund Financial Statements are groupings of accounts used to maintain control over resources segregated for specific activities or objectives. The Authority, like other state, local, or quasi-governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority's fund only consisted of a **Proprietary Fund**.

The Authority's **Proprietary Fund** is comprised of an enterprise funds with "business-type" activities intended to recover all or a portion of their costs through fees and charges for services. Since the Authority maintains its activities in enterprise funds, its Proprietary Fund financial statements provide information about the activities of the Authority as a whole.

Low-Income Public Housing-Under the Conventional Public Housing Program, the Authority rents units it owns to low-income families. The Conventional Public Housing Program is operated under an Annual Contribution Contract (ACC) with HUD, and HUD provides an operating subsidy to enable the Authority to provide housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP)- The Conventional Public Housing Program also includes the CFP, which is the primary funding source for physical management improvements to the Authority's properties. CFP funding is based on a formula allocation that takes into consideration the size and age of the authorities housing stock.

Section 8 Housing Assistance-Vouchers and Substantial Rehabilitation -The Housing Choice Voucher and Substantial Rehabilitation Programs are the federal government's programs for assisting low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. The programs are

administered locally by public housing authorities (PHAs). The PHAs receive funds from HUD to administer the programs. A housing subsidy is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Components Units - The Component units are not-for-profit organizations formed by the Authority for the purpose of assisting in the development of projects which provide housing to a mixture of low-income and market rate families. The low-income families rents are subsidized by HUD.

FINANICAL ANALYSIS OF THE AUTHORITY

Net Position

Net position represents the difference between total assets and total liabilities. As shown in Table 1, the Authority's net position at March 31, 2014 decreased by \$2 million to \$73.8 million. This was a 2.5% decrease from the March 31, 2013 balance of \$75.7 million.

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

	2014	2013	Change	Percentage Change
Current Assets	\$ 8,053	\$ 8,115	\$ (62)	-0.8 %
Capital Assets	62,727	63,739	(1,012)	-1.6 %
Non-current Assets	11,420	11,231	189	1.7 %
Total Assets	82,200	83,085	\$ (885)	-1.1 %
Current Liabilities	2,467	1,432	\$ 1,035	72.3 %
Non Current Liabilities	5,926	5,917	9	0.2 %
Total Liabilities	8,393	7,349	1,044	14.2 %
Unrestricted	10,390	11,225	(835)	-7.4 %
Restricted Net Assets	690	771	(81)	-10.5 %
Net Investment in Capital Assets	62,727	63,739	(1,012)	-1.6 %
Total Net Position	73,807	75,736	(1,929)	-2.5 %
Total Liab. and Net Position	\$ 82,200	\$ 83,085	\$ (885)	-1.1 %

As discussed in the highlights current assets decreased by \$62 thousand or -0.8 percent

CAPITAL ASSETS

Capital assets decreased by \$1 million from \$63.7 million to \$62.7 million, as shown in the table below:

	<u>March 31, 2013</u>	<u>Additions and Deletions</u>	<u>March 31, 2014</u>
Land and Structures	\$ 76,510,716	\$ (160,856)	\$ 76,349,860
Leasehold Improvements	3,424,627	10,246,893	13,671,520
Equipment and Furniture	6,758,678	38,900	6,797,578
Construction in Progress	38,139,190	(9,735,687)	28,403,503
Less Accum. Depreciation	(61,093,767)	(1,401,810)	(62,495,577)
Total Fixed Assets	<u>\$ 63,739,444</u>	<u>\$ (1,012,560)</u>	<u>\$ 62,726,884</u>

Completed construction projects totaled \$10,246,893 and were transferred to leasehold improvements. Depreciation for the year totaled \$1,469,357 with adjustments of \$67,547 due to dispositions. Additions totaled \$38,900 and dispositions were \$160,856.

DEBT

The Authority has several notes receivable outstanding as a result of funds loaned to mixed income developers by its component units. These are long-term notes that will mature in 2051 and 2060. Interest payments are accumulated and are not required to be paid until the developments generate positive cash flow per HUD regulations.

The Authority maintains escrow deposits for repairs related to the notes.

The Authority has bonds outstanding totaling \$3,634 thousand for both principal and interest to bond holders. The bonds mature in 2021. Interest is paid semi-annually and principal is paid annually. The bonds are secured by \$3,390 held by in escrow by Mellon Bank. Mellon makes all payments to bond holders.

Change in Net Position

As shown in Table 2, below, the Authority's total operating revenues, which included all HUD Grants, tenant rents, interest and other income increased by \$1.9 million or 9.5 percent, while total operating expenses decreased by \$1.2 million or 4.7 percent, from approximately \$24.7 million at March 31, 2013 to \$23.5 million at March 31, 2014.

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

	2014	2013	Change	Percentage Change
Tenant Revenue	\$ 2,883	\$ 2,750	\$ 133	4.9 %
HUD Revenue	18,211	16,811	1,400	8.3 %
Other Income	508	176	332	188.6 %
Total Revenue	<u>21,602</u>	<u>19,737</u>	<u>1,865</u>	9.5 %
Operating Expenses	22,062	23,199	(1,137)	-4.9 %
Depreciation	1,469	1,492	(23)	-1.6 %
Total Expenses	<u>23,531</u>	<u>24,692</u>	<u>(1,161)</u>	-4.7 %
Change in Net Position	(1,929)	(4,955)	3,026	-61.1 %
Beginning Net Position	75,736	80,821	(5,086)	-6.3 %
Prior Period Adjustment		(130)	130	-100.0 %
Ending Net Position	<u><u>\$ 73,807</u></u>	<u><u>\$ 75,736</u></u>	<u><u>\$ (1,929)</u></u>	-2.5 %

As previously stated, operating expenses decreased by approximately 4.7 percent, changes are shown below in Table 3:

Table 3
Gary Housing Authority's Operating Expense
(in thousand dollars)

	2014	2013	Change	Total Percent Change
Administrative Expenses	\$ 4,512	\$ 6,191	\$ (1,679)	-27.1%
Tenant Services	22	34	(12)	-34.6%
Utilities Expenses	3,411	3,074	337	10.9%
Ordinary Maintenance	2,545	2,301	245	10.6%
Protective Services	705	633	72	11.3%
General Expenses	633	775	(142)	-18.3%
Housing Assistance Payments	9,963	10,191	(228)	-2.2%
Casualty Losses	56	-	56	100.0%
Interest Expenses	215	-	215	100.0%
Depreciation Expense	1,469	1,492	(23)	-1.6%
Total Operating Expenses	<u><u>\$ 23,531</u></u>	<u><u>\$ 24,692</u></u>	<u><u>\$ (1,161)</u></u>	-4.7%

Decreases occurred mainly in administrative expenses. The decrease in administrative expenses was due to the decrease in salary expense.

BUDGETARY HIGHLIGHTS

For the operating budget, the chief financial officer submits a proposed budget; for revenues and expenses for the low rent operating programs, functions, activities, or objectives for the following fiscal year; to the or governing board. The governing board approves and adopts the budget. Operating monies are determined by rents and operating subsidies provided by HUD, as established by Congress. The funding is dependent on the availability of federal funds. The Authority did not establish budgetary amendments for the fiscal year-end March 30, 2014.

Capital project budgets are approved and are adopted for five years by the Board of Commissioners and HUD based on Federal funding. They are then annualized to strengthen monitoring and completion benchmarks. Budgeted and actual costs are compared to the five year plan and are monitored by the Authority and HUD. Line item variances are resolved and approved by HUD.

MAJOR INITIATIVES

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 make progress, 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:

ECONOMIC FACTORS

The Authority is primarily dependent upon HUD for its funding of operations; therefore, operating revenues are affected more by the Federal budget than by local economic conditions.

CONTACTING THE HOUSING AUTHORITY

The financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Starlene Williams Director of Finance, Housing Authority of the City of Gary, Indiana, 1402 173rd Street, Gary, Indiana 46402, or call 219-888-6400.

Sincerely,

A handwritten signature in blue ink, appearing to read 'CLAB.L' or similar, with a stylized flourish at the end.

Ray Baker
Executive Director

BASIC FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

EXHIBT A

	LOW RENT	SECTION 8	COMPONENT UNITS	2014 SUB-TOTAL	ELIMINATION	2014 TOTAL	2013 TOTAL
ASSETS							
<u>CURRENT ASSETS</u>							
Cash and Cash Equivalents	\$ 1,684,046	\$ 1,225,558	\$	\$ 2,909,604	\$	\$ 2,909,604	\$ 2,542,584
Investments and Escrows	87,257	46,044	4,326,146	4,459,447		4,459,447	4,889,412
Accounts Receivable, net	289,289	49,148		338,437		338,437	312,830
Prepaid Expenses	88,387	4,357		92,744		92,744	11,149
Material Inventories, net	252,955			252,955		252,955	358,639
Notes Receivable - Current		57,902		57,902	(57,902)	-	-
Total Current Assets	2,401,934	1,383,009	4,326,146	8,111,089	(57,902)	8,053,187	8,114,614
<u>NON CURRENT ASSETS</u>							
Accrued Interest Receivable	2,374,747		208,366	2,583,113		2,583,113	2,393,942
Notes Receivable - Long Term	8,337,060	1,408,249	500,000	10,245,309	(1,408,249)	8,837,060	8,837,060
Capital Assets, net	59,575,113		3,151,771	62,726,884		62,726,884	63,739,444
Total Non-Current Assets	70,286,920	1,408,249	3,860,137	75,555,306	(1,408,249)	74,147,057	74,970,446
TOTAL ASSETS	\$ 72,688,854	\$ 2,791,258	\$ 8,186,283	\$ 83,666,395	\$ (1,466,151)	\$ 82,200,244	\$ 83,085,060
LIABILITIES AND NET POSITION							
<u>CURRENT LIABILITIES</u>							
Accounts Payable	\$ 1,493,898	\$ 359,150	\$	\$ 1,853,048	\$	\$ 1,853,048	\$ 809,564
Accrued Liabilities	120,647			120,647		120,647	382,172
Accrued Compensated Absences - Current	59,640			59,640		59,640	-
Notes Payable - Current	57,902			57,902	(57,902)	-	-
Bonds Payable - Current			255,000	255,000		255,000	240,000
Total Current Liabilities	1,732,087	359,150	255,000	2,346,237	(57,902)	2,288,335	1,431,736
<u>NONCURRENT LIABILITIES</u>							
Escrow Deposits			927,760	927,760		927,760	853,394
Accrued Compensated Abs. - Non-Current	178,918			178,918		178,918	-
Deferred Inflow of Resources	2,374,747		208,366	2,583,113		2,583,113	2,393,942
Notes Payable - Long-Term	1,408,249			1,408,249	(1,408,249)	-	-
Bonds Payable - Long-Term			2,415,000	2,415,000		2,415,000	2,670,000
Total Noncurrent Liabilities	3,961,914	-	3,551,126	7,513,040	(1,408,249)	6,104,791	5,917,336
Total Liabilities	5,694,001	359,150	3,806,126	9,859,277	(1,466,151)	8,393,126	7,349,072
<u>NET POSITION</u>							
Unrestricted Net Assets	7,419,740	1,742,228	1,228,386	10,390,354		10,390,354	11,225,332
Restricted Net Assets		689,880		689,880		689,880	771,212
Net Investment in Capital Assets	59,575,113	-	3,151,771	62,726,884		62,726,884	63,739,444
Total Net Assets	66,994,853	2,432,108	4,380,157	73,807,118	-	73,807,118	75,735,988
TOTAL LIABILITIES AND NET POSITION	\$ 72,688,854	\$ 2,791,258	\$ 8,186,283	\$ 83,666,395	\$ (1,466,151)	\$ 82,200,244	\$ 83,085,060

See Accompanying Notes to Financial Statements

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

EXHIBIT B

	LOW RENT	SECTION 8	COMPONENT UNIT	2014 TOTAL	2013 TOTAL
OPERATING REVENUES					
Tenant Charges	\$ 2,883,289	\$	\$	2,883,289	\$ 2,749,520
HUD Operating Grants	6,988,573	10,952,690		17,941,263	16,810,563
Other Income	627,109	51,754		678,863	427,621
TOTAL REVENUES	10,498,971	11,004,444	-	21,503,415	19,987,704
OPERATING EXPENSES					
Administrative Expenses	3,569,774	941,764		4,511,538	6,191,295
Tenant Services	22,115			22,115	33,829
Utilities Expenses	3,410,649			3,410,649	3,074,133
Ordinary Maintenance	2,545,495			2,545,495	2,300,587
Protective Services	704,938			704,938	633,424
General Expenses	631,239	2,164		633,403	774,772
Housing Assistance Payments	(8,438)	9,971,588		9,963,150	10,191,163
Casualty Losses	55,587			55,587	-
Interest Expense			215,214	215,214	-
Depreciation Expense	1,449,097		20,261	1,469,358	1,492,425
TOTAL OPERATING EXPENSES	12,380,456	10,915,516	235,475	23,531,447	24,691,628
OPERATING INCOME (LOSS)	(1,881,485)	88,928	(235,475)	(2,028,032)	(4,703,924)
NON-OPERATING REVENUES AND (EXPENSES)					
Interest Income	1,532	227		1,759	3,534
Unrealized Loss On Investments			(49,138)	(49,138)	
HUD Capital Grants	269,859			269,859	-
Gain/(Loss) on Disposal of Assets	(123,318)			(123,318)	(254,696)
Management Fees - Revenue	1,768,915			1,768,915	2,224,087
Management Fees - Expense	(1,640,710)	(128,205)		(1,768,915)	(2,224,087)
TOTAL NON-OPERATING	276,278	(127,978)	(49,138)	99,162	(251,162)
CHANGES IN NET ASSETS	(1,605,207)	(39,050)	(284,613)	(1,928,870)	(4,955,086)
BEGINNING NET ASSETS	68,600,060	2,471,158	4,664,770	75,735,988	80,821,466
PRIOR PERIOD ADJUSTMENTS				-	(130,392)
ENDING NET ASSETS	\$ 66,994,853	\$ 2,432,108	\$ 4,380,157	\$ 73,807,118	\$ 75,735,988

See Accompanying Notes to Financial Statements

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2014 (WITH COMPARATIVE TOTALS FOR 2013)

EXHIBIT C

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants and Others	\$ 21,401,480	\$ 19,987,704
Payments to Employees	(3,128,910)	(3,677,173)
Payments to Vendors and Suppliers	(17,614,563)	(18,599,134)
Net Cash Provided by/(Used for) Operating Activities	658,007	(2,288,603)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Gain)/Loss on Investments	49,138	256,589
Interest on Investments	758	3,534
Net Cash Provided by/(Used for) Investing Activities	49,896	260,123
CASH FLOWS FROM FINANCING ACTIVITIES		
(Purchase)/Sale of Fixed Assets	(38,900)	(52,754)
Investment in Fixed Assets	(141,528)	-
Disposal of Asssset	79,545	17,902
Increase/(Decrease) in Notes Payable	-	(57,902)
Increase/(Decrease) in Bonds Payable	(240,000)	(225,000)
Net Cash Provided by/(Used for) Financing Activities	(340,883)	(317,754)
NET INCREASE IN CASH AND CASH EQUIVALENTS	367,020	(2,346,234)
CASH AND CASH EQUIVALENTS AT APRIL 1, 2013	2,542,584	4,888,818
CASH AND CASH EQUIVALENTS AT MARCH 31, 2014	<u>\$ 2,909,604</u>	<u>\$ 2,542,584</u>
Reconciliation of Operating Loss to Net Cash		
Used by Operating Activities		
Operating Loss	\$ (2,028,032)	\$ (4,703,924)
Adjustments To Reconcile:		
Depreciation	1,469,357	1,492,425
Prior Period Adjustment	-	(130,392)
Add back Loss on Disposal	123,318	254,696
Changes in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	(25,607)	507,220
(Increase)/Decrease in Prepaid Expenses	(81,595)	106,413
(Increase)/Decrease in Material Inventories	105,684	3,897
(Increase)/Decrease in Accrued Interest Receivables	(189,171)	(309,788)
Increase/(Decrease) in Accounts Payable	1,043,483	90,867
Increase/(Decrease) in Accrued Liabilities	(22,967)	(9,910)
Increase/(Decrease) in Escrow Deposits	74,366	100,105
Increase/(Decrease) in Deferred Revenue	189,171	309,788
Net Cash Provided by/(Used for) Operating Activities	<u>\$ 658,007</u>	<u>\$ (2,288,603)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		

None

See Accompanying Notes to 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, 2014

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.

In August 2013, HUD took over the day to day operations of the Housing Authority. The Board of Commissioners was dissolved and a one member HUD employee was designated as the Board of Commissioner.

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 provide funds to assist the Public Housing Authorities (PHAs) in financing the acquisition, construction, and/or leasing of housing units; make housing assistance payments; and 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

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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.

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)

GHA LLC was established on September 4, 2003 as a for profit limited liability company. GHA LLC was formed to acquire and/or manage real property. The LLC was formed by the Authority, it's 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)

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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)

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.

Fifth Avenue Housing Development Corporation (Fifth Avenue)

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 (Small Farms)

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. 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.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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 are 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.

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 units, 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.
- Component unit funds consist 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 are 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.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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 Position - 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 Position includes the following:

- Net investment in capital assets - 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.

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

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

funds, whether or not they are federal funds. The Authority is also in compliance with all state and local laws and regulations regarding investments.

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, 2014, 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	5-7 years
Automobiles	5 years
Computers	3 years

Concentration of Risk

During the year ended March 31, 2014, the Authority received approximately 77 percent of its revenue from HUD.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Financial Information for 2013

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, 2013, from which the summarized information was derived.

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 \$2,909,604 at March 31, 2014. 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. The Authority is also in compliance with all state and local laws and regulations regarding cash equivalents.

Of the total cash on hand at March 31, 2014, \$925,313 was restricted, as follows:

Description	Amount
Tenant Security Deposits	\$ 163,682
Housing Assistance Payment	689,880
FSS Escrow	67,036
Total Restricted Cash	\$ 920,598

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Note 4 - Investments

At March 31, 2014, investments totaled \$4,459,447 which consisted of money market accounts and government securities. The fair values and unrealized gain/loss at March 31, 2014, are summarized as follows:

Description	Category 1		Unrealized Gain/(Loss)
	Book Value	Market Value	
Money Market	\$ 133,302	\$ 133,302	\$ -
Government Securities	4,326,145	4,326,145	-
Total Investments	\$ 4,459,447	\$ 4,459,447	\$ -

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.

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 \$4,459,447, as follows:

Description	Money Market	Government Securities	Total
Small Farms - Bonds	\$	\$ 3,398,385	\$ 3,398,385
GHA LLC - Reserve		927,760	927,760
Unrestricted Investments	133,302		133,302
Total	\$ 133,302	\$ 4,326,145	\$ 4,459,447

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 a bank 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. Bonds payment outstanding at March 31, 2014 at \$3,633,850. **(See Note 13)**

An escrow reserve accounts were established in association with the Duneland loan. Funds in these accounts totaled \$927,760, at March 31, 2014. **(See Note 14)**

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Note 5 - Accounts Receivable

At March 31, 2014, accounts receivable totaled \$338,437 and consisted of the following:

Description	Amount
Tenant Accts. Receivable, net	\$ 133,906
Accounts Receivable - Other	204,531
Total Accounts Receivable	\$ 338,437

The Authority reviews the accounts receivable periodically. During the year \$184,923 were charged to bad debts.

Note 6- Prepaid Expenses

Prepaid expenses totaled \$92,744 at March 31, 2014, and consisted of prepaid insurance and vendor services.

Note 7 - Material Inventories - Net

Material inventories totaled \$252,955 at March 31, 2014. Material inventories are stated at the lower of cost or market. Material inventories were not reviewed for obsolescence or adjusted during the 2014 fiscal year.

Note 8-Notes Receivable

Notes receivable at March 31, 2014, totaled \$8,837,060 and represented amounts due from various component units. Total notes receivable along with accrued interest are shown below:

Description	Notes	Interest	Total
Duneland Village Associates, L.P.	\$ 3,116,000	\$ 2,128,347	\$ 5,244,347
Horace Mann Associates, L.P.	5,221,060	246,400	5,467,460
Gary Housing Development Corp.	500,000	208,366	708,366
Total Notes and Interest Receivable	\$ 8,837,060	\$ 2,583,113	\$ 11,420,173

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, 2014, 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

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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 re-syndication 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, 2014 is \$3,116,000 plus accrued interest of \$2,128,347.

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 re-syndication of refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

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, 2014 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

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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 re-syndication 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, 2014 is \$500,000. Accrued interest totaled \$208,366.

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, 2014 the Section 8 receivable was \$1,466,151. The loan is eliminated on balance sheet because the fund are owed from low rent to section 8, and thus low rent has a payable of \$1,466,151 at March 31, 2014.

Note 9 - Land, Structures and Equipment

The changes in land, structures and equipment for the year ended March 31, 2014, were as follows:

	March 31, 2013	Additions / Deletions	March 31, 2014
Land and Structures	\$ 76,510,716	\$ (160,856)	\$ 76,349,860
Leasehold Improvements	3,424,627	10,246,893	13,671,520
Equipment and Furniture	6,758,678	38,900	6,797,578
Construction in Progress	38,139,190	(9,735,687)	28,403,503
Less Accum. Depreciation	(61,093,767)	(1,401,810)	(62,495,577)
Total Fixed Assets	\$ 63,739,444	\$ (1,012,560)	\$ 62,726,884

Changes in land, structures and equipment during the audit period consisted of increases in construction in progress, equipment purchased, property sold, 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 2014 totaled \$1,469,358.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Note 10 - Accounts Payable

Accounts payable totaled \$1,853,048 at March 31, 2014, which consisted of the following:

Description	Amount
Accounts Payable - Vendors	\$ 1,573,743
Tenant Security Deposits	163,682
Prepaid Rents	48,584
Accounts Payable - Other	67,039
Total Accounts Payable	\$ 1,853,048

Note 11 - Accrued Liabilities

Accrued liabilities totaled \$359,205, at March 31, 2014, and represented amounts due for accrued salary, vacation and sick leave as follows:

Description	Amount
Accrued Salary and Wages	\$ 69,104
Other Accrued Liabilities	51,543
Compensated Absences	238,558
Total Accrued Payables	\$ 359,205

Accrued compensated absences were \$238,558, as indicated below:

Accrued Comp. Abs - Current	59,640
Accrued Comp. Abs - Non-Current	178,918
Total Accrued Compensated Abs.	\$ 238,558

It is the Authority's policy to compensate employees for accumulated vacation leave and a portion of unused sick 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-Escrow Deposits

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, 2013, escrow deposits amounts totaled \$927,760, which exceeds the required balance. **See Note 4**

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Note 13 - Deferred Inflow of Resources

At March 31, 2014, deferred inflow of resources totaled \$2,582,113, and consisted of accrued interest, as shown below: See Note 8

Duneland Note - Due Authority	\$	2,128,347
Horance Mann Note - Due Authority		246,400
Horance Mann Note - Due GHDC		208,366
Total	\$	<u><u>2,583,113</u></u>

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 14 - Notes Payable - IG

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, 2014 the low rent owed the Section 8 program \$1,466,151 as follows: See Note 8

Current Balance	\$	57,902
Non-Current Balance		1,408,249
Total	\$	<u><u>1,466,151</u></u>

Note 15 - Bonds Payable

The Small Farms, an agency of the Authority, has bonds outstanding totaling \$2,670,000.

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 \$3,398,385, toward the payment of principal and interest. Current and non-current payments are as shown below: See Note 4

Description	Amount
Current Portion	\$ 255,000
Long-Term Portion	2,415,000
Total Bonds Payables	\$ <u><u>2,670,000</u></u>

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Future payment amounts are as follows:

Year End	Principal Payment	Interest Payment	Total
3/31/2015	\$ 255,000	\$ 197,580	\$ 452,580
3/31/2016	275,000	178,710	453,710
3/31/2017	295,000	158,360	453,360
3/31/2018	320,000	136,530	456,530
3/31/2019	340,000	112,850	452,850
Thereafter	1,185,000	179,820	1,364,820
Total Bond Payable	\$ 2,670,000	\$ 963,850	\$ 3,633,850

Note 16 - Employee Benefit Plans

The Authority established a defined contribution plan ("Plan") administered by a third-party "Billings and Company, Inc." under the City of Gary's eligibility rules and regulations for the employee benefit plans. The Plan is governed by the Code and the Treasury regulations issued there under (as they might be amended from time to time). To the extent not preempted by the Federal law, the provisions of this Plan is construed, enforced and administered according to the laws of the State of Indiana.

The Plan covers all regular employees who work for at least 90 days. The maximum contribution is 13.75% of the employee's monthly salary and the minimum employer required contribution is 7.5%. 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%.

The normal retirement date is the participants' 65th birthday. Participants may elect to retire anytime after their 55th 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 \$3,128,910. The Authority made all required contributions to the Plan.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

Plan assets totaled \$2,859,063, at March 31, 2014, as follows:

Description	Amount
Beginning Balance @ 04/01/2013	\$ 2,929,135
Contributions	293,355
Withdrawals	(575,572)
Earnings	220,019
Forfeitures	(7,874)
Ending Balance @ 03/31/2014	\$ 2,859,063

Note 17 - Operating Lease Commitments

The Authority has an operating lease for office equipment (copiers) that expires at the end of fiscal year 2016. Total lease payments were \$80,400 during 2014. The future minimum lease payments are as follows:

Year End	Amount
3/31/2015	\$ 72,369
3/31/2016	72,369
Total Lease Payable	\$ 144,738

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, 2014

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, 2014, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended March 31, 2014. Management has performed their analysis through February 12, 2015, the date the financial statements were issued. The Authority has not evaluated events occurring after February 12, 2015, in these financial statements.

SUPPLEMENTAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2014

EXHIBIT D

FEDERAL GRANTOR	ANNUAL	FEDERAL	
	CONTRIBUTION	AWARDS	
	CONTRACT #	CFDA #	EXPENDED
Major Federal Programs - U S Department of Housing and Urban Development			
<u>Low Rent Housing Program</u>			
Public and Indian Housing		14.850	\$ 5,704,345
Public Housing Capital Fund		14.872	1,554,088
Total low Rent Housing Programs			7,258,433
<u>Housing Assistance Payment Program</u>			
Section 8 Housing Choice Voucher Program		14.871	10,612,369
Total Major Federal Program			17,870,802
Non-Major Federal Program - U S Department of Housing and Urban Development			
<u>Housing Assistance Payment Program</u>			
Lower Income Housing Assistance Prog._Sec. 8 Moderate Rehabilitaion		14.856	391,877
Total Non-Major Federal Program			391,877
Total All Programs - U S Department of Housing and Urban Development			\$ 18,262,679

See Accompanying Notes to the Schedule of Expenditure of Federal Awards

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2014

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 (the Authority), 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 financial statements.

The schedule summarizes the federal funds expended by the Authority under programs of the federal government during the year ended March 31, 2014. 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, 2014, and should be read in conjunction with the Authority's consolidated financial statements.

Note 2 – Sources and Type of Funding

The schedule includes all grants and contracts entered into directly between the Authority and agencies and department 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, 2014.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED - CURRENT
FOR THE YEAR ENDED MARCH 31, 2014

EXHIBIT E

ANNUAL CONTRIBUTION CONTRACT C - 348 PHASES IN36PO11 - 501-09, 501-10, 501-11, AND 501-12
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	501-09	501-10	501-11	501-12	Total
Funds Approved	\$ 4,616,580	\$ 4,601,056	\$ 3,798,787	\$ 3,026,819	\$ 16,043,242
Funds Expended	<u>2,750,478</u>	<u>1,380,317</u>	<u>1,595,739</u>	<u>908,046</u>	<u>6,634,580</u>
Excess\ (Deficit) of Funds Approved	<u>\$ 1,866,102</u>	<u>\$ 3,220,739</u>	<u>\$ 2,203,048</u>	<u>\$ 2,118,773</u>	<u>\$ 9,408,662</u>
Funds Advanced	\$ 2,750,478	\$ 1,380,317	\$ 1,595,739	\$ 908,046	\$ 6,634,580
Funds Expended	<u>2,750,478</u>	<u>1,380,317</u>	<u>1,595,739</u>	<u>908,046</u>	<u>6,634,580</u>
Excess\ (Deficit) of Funds Advanced	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- 1 Capital Fund Program costs for Phases IN 36P-501-09, 501-10, 501-11, and 501-12 are shown above.
- 2 Cost additions totaled \$1,554,088, and were audited by VB&C.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED - NON-CURRENT
FOR THE YEAR ENDED MARCH 31, 2014

EXHIBIT F

ANNUAL CONTRIBUTION CONTRACT C - 348 PHASES IN36PO11 - 709-99, 501-00, 501-01, AND 501-02
--

	708-99	501-00	501-01	501-02	Total
Funds Approved	\$ 6,379,924	\$ 4,574,708	\$ 6,108,798	\$ 5,328,723	\$ 22,392,153
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>20,906,767</u>
Excess\ (Deficit) of Funds Approved	\$ <u>-</u>	\$ <u>1,485,386</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,485,386</u>
Funds Advanced	\$ 6,379,924	\$ 4,574,808	\$ 6,108,798	\$ 5,328,723	\$ 22,392,253
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>20,906,767</u>
Excess\ (Deficit) of Funds Advanced	\$ <u>-</u>	\$ <u>1,485,486</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,485,486</u>

- 1 Capital Fund Program costs for Phases IN 36P-708-99, 501-00, 501-01, and 501-02 are shown above.
- 2 There were no cost additions during the audit period and accordingly, no cost were audited by VB&C.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
 STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED - NON-CURRENT
 FOR THE YEAR ENDED MARCH 31, 2014

EXHIBIT F

ANNUAL CONTRIBUTION CONTRACT C - 348
 PHASES IN36PO11 - 501-03, 501-04, AND 501-08

	501-03	501-04	501-08	Total
Funds Approved	\$ 4,092,421	\$ 4,791,323	\$ 4,640,817	\$ 13,524,561
Funds Expended	<u>2,599,227</u>	<u>3,360,571</u>	<u>4,640,817</u>	<u>10,600,615</u>
Excess\ (Deficit) of Funds Approved	\$ <u>1,493,194</u>	\$ <u>1,430,752</u>	\$ <u>-</u>	\$ <u>2,923,946</u>
Funds Advanced	\$ 4,092,421	\$ 3,360,571	\$ 4,640,817	\$ 12,093,809
Funds Expended	<u>2,599,227</u>	<u>3,360,571</u>	<u>4,640,817</u>	<u>10,600,615</u>
Excess\ (Deficit) of Funds Advanced	\$ <u>1,493,194</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,493,194.00</u>

- 1 Capital Fund Program costs for Phases IN 36P-501-03, 501-04, and 501-08, are shown above.
- 2 There were no cost additions during the audit period and accordingly, no cost were audited by VB&C.

SINGLE AUDIT REPORTS

**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
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, and each major fund of the Housing Authority of the City of Gary, Indiana (the Authority) as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial report. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses for items 2014-1, 2014-2, and 2014-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies 2014-4, 2014-5, and 2014-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2014-7, 2014-8, 2014-9, 2014-10, and 2014-11.

The Authority's Response to Findings

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

Purpose of this Report

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

A handwritten signature in dark ink, appearing to read "Velma Butler" followed by a stylized flourish or "Ltd.".

Velma Butler & Company, Ltd.
Chicago, Illinois

February 12, 2015

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by 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
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Gary, Indiana (the Authority)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended March 31, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on Public and Indian Housing Program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.850 Public and Indian Housing as described in finding numbers 2014-10 for Deficiencies in Tenant File Documentation, 2014-11 for Deficiencies in Low Rent Waiting List. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on Public and Indian Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the low rent public housing program for the year ended March 31, 2014.

Basis for Qualified Opinion on Housing Choice Voucher Program

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.871 Housing Choice Voucher as described in finding numbers 2014-7 on the Weaknesses of Internal Control. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on Housing Choice Voucher Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the housing choice voucher program for the year ended March 31, 2014.

Basis for Qualified Opinion on Each of the Other Major Federal Programs

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding each of the other major federal programs as described in finding numbers 2014-7 on the Weaknesses of Internal Control. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

Qualified Opinion on Each of the Other Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended March 31, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 2014-10 and 2014-11. Our opinion on each major federal program is modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 requirement 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 2014-1, 2014-2, and 2014-3 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 2014-4, 2014-5, 2014-6, 2014-8, and 2014-9 to be significant deficiencies.

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended March 31, 2014, and have issued our report thereon dated February 12, 2015, which contained a disclaimer opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and we do not, express an opinion on the schedule of expenditure of federal awards.

A handwritten signature in dark ink, appearing to read "Velma Butler & Company, Ltd.", is positioned above the printed name.

Velma Butler & Company, Ltd.
Chicago, Illinois

February 12, 2015

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED MARCH 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

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 ☐ No

Noncompliance material to financial statements noted?
 ☒ Yes ☐ No

Federal Awards

Type of report issued: **Qualified**

Internal control over major programs:

Material weakness(es) identified? ☒ Yes ☐ No

Deficiencies identified not considered to be material weaknesses?
 ☒ Yes ☐ No

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>
Low Rent Rental Assistance Programs	
14.850	Public and Indian Housing
14.872	Public Housing Capital Fund
Section 8 Housing Assistance Programs	
14.871	Section 8 Housing Choice Vouchers

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
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014

Section II – Financial Statement Findings and Questioned Costs

Finding 2014-1 Weaknesses in Internal Control (Material Weakness)

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.

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, this appears to be a systemic problem. 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:

- General ledger account balances were not supported with hard documents or they did not agree with documents provided,
- Cash balances, for multiple accounts did not agree with the reconciliation schedules,
- Construction in progress costs were recorded in building costs,
- Accounts payables amounts did not agree with aging reports or the general ledgers,
- Compensated absences did not agree with supporting schedules.
- Prior year accruals were not reversed and were still included in current year liabilities' balances,
- Invoices received before year end were not entered as accounts payable,
- Unrecorded prior year expenses were recorded as current year 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 ensures its internal control for appropriately recording, processing, and reporting all transactions in the proper account and accounting period in order to maintain the accuracy of account balances and accountability for the Authority's assets,

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014**

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

Authority Action Plan:

To improve GHA's internal control system, the current contractor is working to: (1) make the necessary corrections to the books and records; (2) update financial policies and procedures; (3) hire capable and experienced financial staff; (4) provide staff training; and (5) develop and implement monthly checklists for staff to follow to ensure that required periodic tasks, including account reconciliations, are timely and accurately completed.

Finding 2014-2 Accounting Software Usage (Material Weakness)

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority did not assure that its accounting records constituted a system that could produce complete and accurate financial records during fiscal year 2014, and this appears to be a systemic problem.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, it did not assure that the system was properly used by its personnel in recording financial data. Information in the Yardi system did not agree with the supporting documentation.

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 maintains adequate accounting records by reviewing, reconciling, and properly entering all account balance information in its accounting system throughout the year.

Authority's Action Plan:

To improve GHA's staff proficiency in utilizing the Yardi accounting software, the current contractor is working to: (1) review the software implementation, and make adjustments as required; (2) provide appropriate software training to staff; (3) update policies and procedures; and (4) provide proper management oversight of accounting staff to ensure the financial software is properly utilized.

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Finding 2014-3 **Financial Statement Adjustments (Material Weakness)**

The Authority did not sufficiently review its cash, accounts payable, accruals, income, or expense balances before closing its books. During the audit, we noted general ledger balances that did not agree with supporting documents. The effect of the incorrect balances overstated or understated the Authority's financial position at year-end, and this appears to be a systemic problem.

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 all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

Authority's Action Plan:

To reduce the number of adjustments to GHA's financial statements, the current contractor is working to: (1) develop a checklist of required periodic tasks; (2) provide appropriate staff training; (3) provide proper management oversight of accounting staff; (4) review financial data monthly and make adjustments/corrections as required; and (5) consistently generate and disseminate monthly financial reports for review and discussion.

Finding 2014-4 **Failure in Complying with Check Signing and Authorization Policy (Significant Deficiencies)**

The Authority did not comply with its check signing and authorization policy, and this appears to be a systemic problem. Check written in an amount of \$100,000 and/or more must be hand signed by the Executive Director and the Chairman of Board Commissioner's; per its policy.

During our review of expenditures, we found that a check in which exceeded \$100,000 that did not have two authorized signatures.

HUD (7460.8 REV-2) requires to establish and follow a written procurement policy that is consistent with 24 CFR 85.36. Each contract or purchase action that obligates the PHA to pay a contractor or vendor must be signed by an appropriate authorization to ensure controls in monitoring contractor performance and acceptance or rejection of contractors' requests for changes in performance, specifications, or price are in place.

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SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
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Recommendation:

The Authority should ensure that adequate oversight and monitoring of contract activities are properly implemented.

Authority's Action Plan:

To resolve GHA's noncompliance with its check signing policy, the current contractor is working to: (1) review current accounting policies and procedures; (2) update current policies and procedures; (3) train staff with respect to the policies and procedures; and (4) provide proper management oversight to ensure compliance with applicable policies and procedures.

Finding 2014-5 Inventory of Materials (Significant Deficiencies)

The Authority did not perform a physical inventory, as required by HUD, and therefore inventory records of materials in the Authority's warehouse were not properly maintained, and this appears to be a systemic problem. The general ledger balances did not correctly reflect the inventory balances at March 31, 2014.

Additionally, the Authority did not have written policies and procedures for inventory controls. Thus, required periodic physical inventory counts were not conducted in order to maintain accurate inventory record.

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.

Recommendation:

The Authority should have a written inventory control policy that including procedures for accounting for, controlling, and safeguarding its fixed assets 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:

To resolve GHA's deficiencies with respect to materials inventory, the current contractor is working to: (1) review current accounting balances by property; (2) request listing of inventory items from each property manager; (3) conduct physical inventory at select number of properties; and (4) make recommendation to maintain or expense remaining materials inventory.

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Finding 2014-6 **Payroll Reporting (Significant Deficiencies)**

The Authority did not reconcile the 941 quarterly payroll reports to the salary expense recorded in the general ledger, and this appears to be a systemic problem.

The Federal government requires the 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 impact wages and payroll taxes being overstated or understated at year-end.

Recommendation:

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

Authority's Action Plan:

To resolve GHA's deficiencies with respect to payroll reporting, the current contractor is working to: (1) review payroll reports completed by ADP (GHA's payroll contractor); (2) make appropriate adjustments, if necessary, to ensure the ADP payroll data is properly entered into the General Ledger; (3) provide management oversight to ensure that report balances are timely and accurately recorded and (4) review and revise as necessary policies and procedures regarding payroll processing to ensure that policies are in place that require reconciliations of payroll activity for each bi-weekly payroll run

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Section III – Federal Award Findings and Questioned Costs

Finding 2014-7 Weaknesses in Internal Control (CFDA 14.850, 14.871, 14.872) (Material Weakness)

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.

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:

- General ledger account balances were not supported with hard documents or they did not agree with documents provided,
- Cash balances, for multiple accounts did not agree with the reconciliation schedules,
- Construction in progress costs were recorded in building costs,
- Accounts payables amounts did not agree with aging reports or the general ledgers,
- Compensated absences did not agree with supporting schedules.
- Prior year accruals were not reversed and were still included in current year liabilities' balances,
- Invoices received before year end were not entered as accounts payable,
- Unrecorded prior year expenses were recorded as current year 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 strengthen its monitoring to ensure its internal control for appropriately recording, processing, and reporting all transactions in the proper account and accounting period in order to maintain the accuracy of account balances and accountability for

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

Authority Action Plan:

To improve GHA's internal control system, the current contractor is working to: (1) make the necessary corrections to the books and records; (2) update financial policies and procedures; (3) hire capable and experienced financial staff; (4) provide staff training; and (5) develop and implement monthly checklists for staff to follow to ensure that required periodic tasks, including account reconciliations, are timely and accurately completed.

Finding 2014-8 Failure in Complying with the Check Signing and Authorization Policy (CFDA 14.850) (Significant Deficiencies)

The Authority did not comply with its check signing and authorization policy. Check written in an amount of \$100,000 and/or more must be hand signed by the Executive Director and the Chairman of Board Commissioner's; per its policy.

During our review of expenditures, we found that a check in which exceeded \$100,000 that did not have two authorized signatures.

HUD (7460.8 REV-2) requires to establish and follow a written procurement policy that is consistent with 24 CFR 85.36. Each contract or purchase action that obligates the PHA to pay a contractor or vendor must be signed by an appropriate authorization to ensure controls in monitoring contractor performance and acceptance or rejection of contractors' requests for changes in performance, specifications, or price are in place.

Recommendation:

The Authority should ensure that adequate oversight and monitoring of contract activities are properly implemented.

Authority's Action Plan:

To resolve GHA's noncompliance with its check signing policy, the current contractor is working to: (1) review current accounting policies and procedures; (2) update current policies and procedures; (3) train staff with respect to the policies and procedures; and (4) provide proper management oversight to ensure compliance with applicable policies and procedures.

Finding 2014-9 Lack of an Approved Annual Operating Budget (CFDA 14.850) (Significant Deficiencies)

The Authority did not have an approved budget for the fiscal year 2014. An annual budget should be established before the start of fiscal year for expenditures from restricted resources at the level the resources were restricted to ensure that available resources were not overspent.

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Adoption of a timely budget allows the Authority to use budget numbers as a reference against which to compare expenditures and revenues throughout the year. As such, the budget provides an ongoing financial management tool to ensure that the Authority spends within its means and balances expenditures against revenues.

HUD (Form-53012A) requires that the housing authority to prepare and have approved by its Board of Commissioners an operating budget using forms prescribed by HUD. The housing authority shall submit a calculation of operating subsidy eligibility in the manner prescribed by HUD in regulations in Title 24 of the Code of Federal Regulations.

Recommendation:

We recommend that the Authority should develop policies and procedures to ensure that an annual budget is prepared and approved before the start of the new fiscal year.

Authority's Action Plan:

To resolve GHA's lack of an approved operating budget, the current contractor is working to: (1) prepare FY 2016 Operating Budgets for each GHA Property and Program (expected approval at March 2015 Board meeting); (2) establish a template and timeline for preparing future Operating Budgets; and (3) train appropriate finance staff to timely prepare and monitor Operating Budgets.

**Finding 2014-10 Deficiencies in Public and Indian Housing Program (CFDA 14.850)
Tenant File Documentation (Other Matter)**

The Authority did not maintain documentation to assure compliance with housing quality standards.

We tested twenty (20) low rent housing tenant files and noted the following:

- One file did not contain Annual Inspection of Unit Forms,
- One file did not have Annual Reexamination of Family Status and Family Income Verification Forms,
- One file did not include social security numbers of those in the household, and
- Two files did not contain the HUD Form 9886.

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.

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Recommendation:

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

Authority's Action Plan:

To resolve deficiencies in the tenant file documentation, GHA is working to: (1) develop a new checklist for entering all necessary and required data into the Yardi software system; (2) review and revise some of the procedures; (3) provide proper management oversight; and (4) conduct periodic reviews of tenant files to ensure compliance.

**Finding 2014-11 Deficiencies in Public and Indian Housing Program (CFDA 14.850)
Waiting List (Other Matter)**

The Authority did not comply with the admission and occupancy policy for its waiting list.

We tested twenty (20) new applicant files that were placed on the low-rent program waiting list during fiscal year 2014.

We noted the following:

- Three applicant files could not be located.
- Three application files' unit sizes were not determined correctly as follows:
 - i) one applicant was assigned a 3-bedroom unit; but should have been assigned to a 2-bedroom unit;
 - ii) one applicant was assigned a 2-bedroom unit; but should have been assigned to a 1-bedroom unit; and
 - iii) one applicant file did not contain a unit determination.
- Four application files were missing all or some of the following: a date and time stamp on the application, admission preference, race and ethnicity of the family head, household type, the unit sized request, and the social security number of the head of household.

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.

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SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
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Recommendation:

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

Authority's Action Plan:

To resolve deficiencies in the tenant file documentation, GHA is working to: (1) purge current waiting list; and (2) develop and implement new policies and procedures (as part of the Annual Comprehensive Occupancy Plan) to provide proper guidance to staff, as we seek to maintain the waiting list in accordance with all HUD and Fair Housing rules and regulations.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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<u>Prior Year Findings</u>	<u>Status</u>	<u>Page Number</u>
Financial Statement Findings and Questioned Cost		
1. Weaknesses in Internal Control, 2013-1	Open (Since 2009)	57-58
2. Accounting Software, 2013-2	Open (Since 2009)	59
3. Financial Statement Adjustments, 2013-3	Open (Since 2012)	58-59
4. Asset Management Fees, 2013-4	Closed	-
5. Inventory of Materials, 2013-5	Open (Since 2009)	59
6. Questioned Costs, 2013-6	Closed	-
7. Payroll Reporting, 2013-7	Open (Since 2009)	59-60
Federal Award Findings and Questioned Cost		
1. Weaknesses in Internal Control, 2013-1	Open (Since 2009)	61-62
2. Accounting Software, 2013-2	Open (Since 2009)	62
3. Financial Statement Adjustments, 2013-3	Open (Since 2012)	62-63
4. Deficiencies in Tenant File Documentation, 2013-8	Open (Since 2009)	63-64
5. Housing Quality Standards, 2013-9	Closed	-
6. Deficiencies in Low Rent Waiting List, 2013-10	Open (Since 2012)	64-65
7. Procurement, Suspension and Debarment, 2013-11	Closed	-
8. Davis-Bacon Act, 2013-11	Closed	-

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Section II – Financial Statement Findings and Questioned Costs

Finding 2013-1 Weaknesses in Internal Control (Material Weakness)

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 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, or no support received.

Finding 2013-2 Accounting Software (Material Weakness)

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 2013.

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.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014**

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.

Finding 2013-3 Financial Statement Adjustments (*Material Weakness*)

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.

Finding 2013-5 Inventory of Materials (*Significant Deficiencies*)

The Authority performed a physical inventory, as required by HUD, but did not properly maintain and assign 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.

Finding 2013-7 Payroll Reporting (*Significant Deficiencies*)

The Authority was not able to reconcile the 941 quarterly payroll reports for salary expense back to the general ledger. We compared the 941 payroll reports submitted to the IRS against the general ledger provided by the Authority. These reports should reconcile in total to the general ledger system for each quarter and the fiscal year.

The Federal government requires the 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.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014

Section III – Federal Award Findings and Questioned Costs

Finding 2013-1 Weaknesses in Internal Control (Material Weakness)

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 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,

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.

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FOR THE YEAR ENDED MARCH 31, 2014**

Finding 2013-2 Accounting Software (Material Weakness)

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 2013.

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.

Finding 2013-3 Financial Statement Adjustments (Material Weakness)

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.

**Finding 2013-8 Deficiencies in Low Rent and Housing Choice Voucher Program
Tenant File Documentation (Other Matter)**

The Authority did not maintain documentation to assure compliance with housing quality standards. During our audit of 20 low rent housing tenant files and 20 housing choice voucher program tenant files we noted that the Authority did not always maintain the required documentation in its tenant files. We noted the following deficiencies:

- 8 files did not include signed lease or rental agreements,
- 13 files did not contain Annual Inspection of Unit Forms,
- 10 files did not have Annual Reexamination of Family Status and Family Income Verification Forms,
- 7 files' tenant rents calculated by the Annual Reexamination of Family Income from the Yardi system did not agree with the amounts of tenant rents reported on Form HUD-50058 Family Report that filed with HUD, and
- 3 file was not available for us to review.

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

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forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

Finding 2013-10 Deficiencies in Low Rent Waiting List (Other Matter)

The Authority did not comply with the Admission and Occupancy Policy. In performing our testing on the 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 on the low-rent program waiting list during fiscal year 2013.

Out of twenty new applicant files tested:

- Two 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.
- One applicant file could not locate it or was not available for us to review.
- Four 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 applicant's signature.
- Four application files did not contain Date & Time of signed applications.
- Eighteen application files did not include Preference such as emergency preference, extremely low-income family preference, or elderly and disabled single person preference.
- One application file's date of application is different than the date from the waiting list in Yardi system.

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.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF COMPLIANCE WITH
SECTION 8 MANAGEMENT ASSESSMENT PROGRAM
FOR THE YEAR ENDED MARCH 31, 2014**

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

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF COMPLIANCE WITH
PUBLIC HOUSING ASSESSMENT SYSTEM
FOR THE YEAR ENDED MARCH 31, 2014**

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.