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May 14, 2009

Board of Commissioners
Housing Authority of the
City of East Chicago
4920 Larkspur St., #498
East Chicago, IN 46312

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2006 to December 31, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of East Chicago, as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

No page 10 with report.

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

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

**TWELVE MONTHS ENDED
DECEMBER 31, 2006**

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

TABLE OF CONTENTS

Auditor's Report	1
Management's Discussion and Analysis	3
FINANCIAL STATEMENTS	
Statement of Net Assets as of December 31, 2006	15
Statement of Revenue and Expenditures - Proprietary Funds and Changes in Net Assets - Twelve Months Ended December 31, 2006	16
Statement of Cash Flows - Twelve Months Ended December 31, 2006	17
Notes to Financial Statements	19
SUPPLEMENTAL DATA	
Schedule of Federal Financial Assistance	30
Individual Fund Statements:	
Statement of Net Assets - Proprietary Funds at December 31, 2006	31
Statement of Revenue and Expenditures - Proprietary Funds - Twelve Months Ended December 31, 2006	33
Statement of Changes in Net Assets - Proprietary Funds - Twelve Months Ended December 31, 2006	35
Statement of Cash Flows - Twelve Months Ended December 31, 2006	37
PHA's Statement and Certification of Actual Modernization Cost - Phase IN36P029501-04	41
Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	42
Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	43
Schedule of Findings and Questioned Costs - Summary	45
Status of Prior Audit Findings	46
Findings, Recommendations and Replies	47
Financial Data Schedule - REAC Electronic Submission	48

PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the Housing Authority City of East Chicago, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority City of East Chicago's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority City of East Chicago, as of December 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 1, 2007, on my consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulation, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis on pages 3 through 15 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements of the Housing Authority City of East Chicago, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Housing Authority City of East Chicago. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Decatur, Illinois
August 1, 2007


Certified Public Accountant

As management of the Housing Authority of the City of East Chicago (the Authority), we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to John D. Artis, Executive Director of the Housing Authority of the City of East Chicago, 4920 Larkspur Drive, P.O. Box 498, East Chicago, Indiana 46312, (219) 397-9974 ext. 30.

Overview of The Financial Statements

The financial statements included in this annual report are those of a "special-purpose" government engaged in a business-type activity. The following statements are included:

- **Statement of Net Assets** (similar to a Balance Sheet) – reports the Authority's current financial resources (short term spendable resources) with capital assets and long-term debt obligations. The statement is presented in the format where "Assets" minus "Liabilities" equals "Net Assets", *formerly known as Equity*. Assets and liabilities are presented in order of liquidity and are classified as "Current" (convertible into cash within one year) and "Non-Current".
- **Statement of Revenues, Expenses, and Changes in Net Assets** (similar to an Income Statement) reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. The focus of this financial statement is on the "Change in Net Assets" which is similar to Net Income or Loss.
- **Statement of Cash Flows** – reports the Authority's net cash flows from operating, investing, capital and non-capital activities.
- **Comparison of budget vs. actual** – reports the Authority's actual operating revenues and expenses versus the budgeted amounts.

The focus is now on major funds rather than fund types. The Authority consists of one (1) Proprietary type fund that encompasses all of the Authority's programs. This Proprietary type fund includes all assets and liabilities using the full accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies which recognizes revenues and expenses when earned regardless of when cash is received or paid. The fund maintained by the Authority is required by the Department of Housing and Urban Development (HUD) with segregated programs to enhance accountability and control.

The attached analysis of entity wide net assets, revenues, and expenses are provided to assist with determining whether the financial position of the Authority as a whole is improving or deteriorating as a result of the year's activities. One can think of the Authority's net assets as the difference between what the Authority *owns* (assets) to what the Authority *owes* (liabilities). To fully assess the financial health of any Authority the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authority's capital assets.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

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

Low Income Public Housing (LIPH)

The Low Income Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD that allows the Authority to rent units it owns to low-income households at a rent that is based upon 30% of household adjusted income. The Housing Authority owns 808 units at 6 sites grouped into 4 Asset Management Projects (AMP) in 2006 throughout the city of East Chicago, IN. The James Hunter site (AMP001) has 109 elderly units, John B. Nicosia site (AMP002) has 207 elderly units, West Calumet site (AMP003) has 346 family units, Harbor Scattered Sites (AMP004) has 104 family units, Columbus Drive site (AMP004) has 17 family units, and New Harbor Scattered Sites (AMP004) has 25 family units. The Authority is responsible for the management and maintenance of all units and sites. On an annual basis, the Authority submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Authority has an Allowable Expense Level, Allowable Utilities Expense Level, and Audit Costs. HUD will fund the difference between these Allowable Expenses and the rents the Authority charges the tenants.

Section 8 Housing Choice Voucher (Section 8 Vouchers)

HUD has contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 636 Housing Choice Vouchers. The Authority pays Housing Assistance Payments to independent landlords for a lease that sets the low income participant's rent at 30% of adjusted income. The Housing Assistance Payment matches the difference between the total rent the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount the tenant can pay. HUD pays the Authority a formula based administrative fee for all vouchers the Authority administers. The Authority is not responsible for the upkeep and maintenance of the units and properties associated with this program.

Lower Income Housing Assistance Program (Section 8 Moderate Rehabilitation Program)

HUD has contracted with the Housing Authority through an Annual Contributions Contract (ACC) to provide funding for 59 Moderate Rehabilitation (Mod Rehab) units. The program was repealed in 1991 and no new projects were authorized for development. This program provides project-based rental assistance for low income families limited to properties previously rehabilitated. The Authority currently has 59 units under contract with Harbor Realty Group and pays Housing Assistance Payments (HAP) for a lease that sets the participant's rent at 30% of household adjusted income. The Housing Assistance Payment matches the difference between the total rent the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount the tenant can pay. For each unit the Authority administers, HUD pays the Authority an administrative fee. When vacancies occur in Mod Rehab units, the Authority refers eligible families from its waiting list to Harbor Realty Group who then selects and screens families for occupancy. The Authority is not responsible for the upkeep and maintenance of the units and property associated with this program.

Capital Fund Program (CFP)

This grant program is awarded by HUD on an annual basis and is the primary funding source for physical and management improvements to the Authority's properties. The Authority requisitions funds from HUD as the Authority expends funds. The Authority has four years to fully expend an annual award.

Economic Factors

Significant economic factors affecting the Authority are as follows:

1. The Authority began plans in 2003 to implement an Assisted Living program to renovate 100 of the 207 units at the John B. Nicosia (29-5) elderly high rise to create a service rich environment by providing additional residential care services. The Indiana State Department of Health approved the construction plans to secure a Residential Care State License requiring construction to commence prior to 2008.
2. Since the discontinuance of the HUD Public Housing Drug Elimination Program (PHDEP) Grant in 2002, the Authority has kept the program going in 2006 by partnering with Tri-City Mental Health to administer and fund the program through the use of Empowerment Zone funding which ends in 2007.
3. Overall federal funding for the Department of Housing and Urban Development (HUD) was cut again by Congress for 2006 appropriations and as a result, the Authority was approved funding in October 2006 at 86.02% for public housing operating subsidies which represented a loss of revenues of \$345,361. HUD's allowable inflation factor was 2.4% for operating subsidy expenses while the average actual inflation factor was 3% to 12% for utilities and insurances. The Voucher Choice Program funding cuts for HAP and Administrative expenses resulted in a loss of \$83,645 in 2005 decreasing lease ups to 89% to afford the rising costs of existing vouchers which continued into 2nd quarter of 2006 when net funding increase of \$66,713 was received for an 81% lease up by year end.
4. The Authority was awarded a 2004 Ross Grant in 2005 which ended July 2006 in the amount of \$37,250 to be used only for the salary and benefits of the public housing FSS Coordinator. Of the total grant, \$32,940 or 88% was actually spent of which \$17,236 was expended during 2006. The voluntary Section 8 FSS program is being phased out beginning in 2006 due to funding uncertainties.
5. The Authority sponsored a summer program placing youth in administrative and supportive services positions to provide awareness of private sector employment responsibilities for youth from junior high to college students residing in Public Housing. Funding in the amount of \$34,685 was approved through the Empowerment Zone of which \$27,893 or 80% was actually spent.
6. Due to the economy continuing to be in a recessionary trend since 2002, local labor supply and demand, which affects salary and wage rates, has continued to cause unemployment to rise. The Authority had no layoffs in 2006 but was understaffed in the maintenance department and continued a salary and hiring freeze through November 2006 to compensate for funding shortfalls.
7. Accounts receivable balances have been an ongoing problem for the Authority. Consequently, the Authority implemented more aggressive earned income verifications, rent collections and eviction procedures resulting in a decrease of \$10,101 or 12% for receivables from the beginning of the year. As accounts receivables continue to decrease, unit turnaround continues to increase.

Condensed Comparative Entity-Wide Financial Statements

The following table reflects the condensed Statement of Net Assets compared to the prior year for Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	2006	2005	Net Change	Percent Variance
Cash	2,091,336	250,483	1,840,853	734.9%
Other Current Assets	461,476	1,685,041	-1,223,565	-72.6%
Capital Assets	6,275,861	7,128,119	-852,258	-12.0%
Non Current Assets	0	0	0	0.0%
Total Assets	8,828,673	9,063,643	-234,970	-2.6%
Current Liabilities	491,091	564,369	-73,278	-13.0%
Long Term Liabilities	45,230	73,939	-28,709	-38.8%
Total Liabilities	536,321	638,308	-101,987	-16.0%
Net Invested in Capital Assets	6,275,861	7,128,119	-852,258	-12.0%
Restricted Net Assets	0	0	0	0.0%
Unrestricted Net Assets	2,016,491	1,297,216	719,275	55.4%
Total Net Assets	8,292,352	8,425,335	-132,983	-1.6%

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

Although **cash** increased by \$1,840,853, **other current assets** (primarily net receivables and investments) decreased by \$1,223,565 primarily due to the bank's non renewal of repurchase agreement investments in the amount of \$1,150,000 and a \$86,025 decrease in fraud recovery receivables. **Total liabilities** also decreased by \$101,987 primarily due to a \$49,067 decrease in year end amounts owed to vendors and to a \$25,327 decrease in the FSS escrow due to graduates and forfeitures in the agency's voluntary FSS programs.

Capital assets also changed significantly, decreasing from \$7,128,119 to \$6,275,861. This \$852,258 decrease is attributed primarily to a combination of acquisitions in the amount of \$533,983 less current year depreciation of (\$1,386,241). For more detail, see the analysis of capital assets activity in table 5.

Unrestricted Net Assets increased by \$719,275 primarily due to the increase in funding of the Housing Choice Voucher program HAP expenses resulting in a net income of \$544,462.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

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

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 12/31/05		\$ 1,297,216
Results of Operations	(243,359)	
Adjustments:		
Prior Year Adjustment	110,376	
Depreciation (1)	<u>1,386,241</u>	
Adjusted Results of Operations		1,253,258
Capital Expenditures		<u>(533,983)</u>
Unrestricted Net Assets 12/31/06		<u><u>\$ 2,016,491</u></u>

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

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

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

The following table compares the revenues and expenses for the current and previous fiscal year for Business-type activities.

TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2006	2005	Net Change	Percentage Change
Revenues				
Total Tenant Revenue	1,454,580	1,369,117	85,463	6%
HUD Operating Grants	6,807,662	6,985,235	-177,573	-3%
Capital Grants	531,083	348,505	182,578	52%
Other Government Grants	30,392	22,165	8,227	37%
Investment Income	32,737	19,537	13,200	68%
Fraud Recovery	24,202	18,406	5,796	32%
Other Revenue	63,745	38,166	25,579	67%
Total Revenue	8,944,401	8,801,131	143,270	2%
Expenses				
Administrative	1,803,929	1,884,063	-80,134	-4%
Tenant Services	256,941	304,130	-47,189	-16%
Utilities	632,854	663,926	-31,072	-5%
Maintenance	1,256,558	1,362,154	-105,596	-8%
Protective Service	196,240	267,631	-71,391	-27%
General Expense	411,417	458,238	-46,821	-10%
Extraordinary Maintenance	35,695	0	35,695	100%
Casualty Losses	-100	1,723	-1,823	-106%
Housing Assistance Payments	3,207,985	3,598,900	-390,915	-11%
Depreciation Expense	1,386,241	1,602,903	-216,662	-14%
Total Expenses	9,187,760	10,143,668	-955,908	-9%
Net Income (Loss)	-243,359	-1,342,537	1,099,178	-

**Major Factors Affecting
The Statement of Revenue, Expenses, and Changes In Net Assets**

Total revenue increased 2% overall. **Total Tenant Revenue** increase of 6% was primarily due to higher income rent paying tenants. **HUD Operating Grants** revenue decreased by 3% due to decrease in Public Housing operating expenses from the Capital Funds. **Capital Grants** revenue increase of 52% was due to the Authority under-taking a more aggressive modernization program in the current fiscal year. **Other Government Grants** revenue increase of 37% was due to an increase in funding received from the county's Empowerment Zone for the agency's multi-sport summer program from the previous year.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FISCAL YEAR ENDING DECEMBER 31, 2006

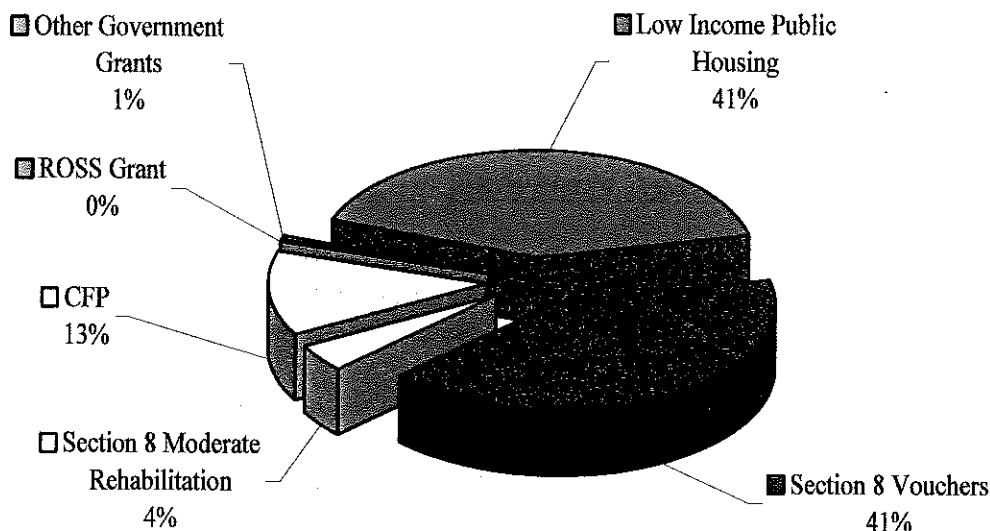
Overall, **total expenses**, excluding depreciation, decreased approximately 9%. **Tenant Services** decreased by 16% due to decrease in summer program employees and activities. **Maintenance** decreased 8% due to decrease in salaries and benefits due to employee resignations. **Protective Service** decreased 27% due to reduction in hours for services. **General Expense** decreased 10% due to reduction in insurance premiums. **Extraordinary Maintenance** increased 100% due to the cyclical purchase of expendable replacement stoves and refrigerators. **Housing Assistance Payments** decreased 11% due to 81% occupancy in 2006 versus 89% in prior year.

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2006 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$3,667,623
Section 8 Vouchers	\$3,706,043
Section 8 Moderate Rehabilitation	\$358,242
Capital Fund Grant Program	\$1,164,865
ROSS Grant	\$17,236
Other Government Grants	\$30,392

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2006:

Revenue Percentage By Program



HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

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

Table 4

Housing Authority Budgetary Highlights

	Original Budget	Actual	Actual Variance	Percent Variance
Tenant Revenue	1,301,490	1,454,580	153,090	11%
HUD Operating Grants	7,196,686	6,807,662	-389,024	-6%
HUD Capital Grants	531,083	531,083	0	0%
Other Government Grants	30,392	30,392	0	0%
Investment Income	7,800	32,737	24,937	76%
Fraud Recovery	0	24,202	24,202	100%
Other Revenue	30,060	63,745	33,685	53%
Total Revenue	<u>9,097,511</u>	<u>8,944,401</u>	<u>-153,110</u>	<u>-2%</u>
Administrative	1,989,490	1,803,929	-185,561	-10%
Tenant Services	361,858	256,941	-104,917	-41%
Utilities	730,850	632,854	-97,996	-16%
Maintenance	1,375,997	1,256,558	-119,439	-10%
Protective Services	196,240	196,240	0	0%
General Expense	390,330	411,417	21,087	5%
Extraordinary Maintenance	35,695	35,695	0	0%
Casualty Losses	0	-100	-100	0%
Housing Assistance Payments	3,538,189	3,207,985	-330,204	-10%
Depreciation Expenses	1,591,220	1,386,241	-204,979	-15%
Total Expenses	<u>10,209,869</u>	<u>9,187,760</u>	<u>-1,022,109</u>	<u>-11%</u>
Net Income/(Loss)	<u>-1,112,358</u>	<u>-243,359</u>	<u>868,999</u>	<u>78%</u>

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

12

Results of Operations

Management prepared an entity wide budget that originally anticipated an operating income of \$478,862 before depreciation expense of \$1,591,220. Actual operating income of \$1,142,882 before depreciation expense of \$1,386,241 consisted of the Public Housing Program at \$704,161, Housing Choice Voucher Program at \$438,806, and the Moderate Rehab Program at a loss of \$85. Actual entity wide results of operation after depreciation was a loss of \$243,359 (Public Housing at a loss of \$673,412, Housing Choice Voucher at an income of \$434,086, and Mod Rehab at a loss of \$4,033) resulting in an entity wide favorable variance of \$868,999 or 78% from the original budget. The major contributing factors were due to overall actual expenses being less than originally budgeted by \$1,022,109 or 11% consisting of favorable expense variances for Depreciation at \$204,979, Administrative at \$185,561, Tenant Services at \$104,917, Utilities at \$97,996, Maintenance at \$119,439, and HAP expenses at \$330,204.

Tenant Rental Revenue was over budget by \$153,090 or 11%. The original budget reflected lower occupancy levels anticipated due to high vacancies in West Calumet's family units and Nicosia and Hunter senior buildings due to a declining market of the elderly in the senior buildings and a higher number of evictions relating to drugs, poor housekeeping and non payment of rents for the family units. Actual reflected tenants paying higher rents than anticipated with occupancy declining in the latter part of the year.

HUD Operating Grants were under budget by \$389,024 or 5%. PHA actual operating subsidy funded in the amount of \$2,125,035 was less than originally anticipated due to HUD's non-approval of \$48,080 for the elderly/disabled coordinator add-on and to Congress's budget cuts resulting in 86% funding. PHA anticipated 97.3% funding of \$2,449,651. The budget difference was an overall shortfall of \$324,616.

Investment Income was over budget by \$24,937 or 76%. PHA anticipated lower interest rates than actually received resulting in an additional \$17,588 from PHA and \$5,749 from Section 8 investments thru July 2006.

Fraud Recovery was over budget by \$24,202 or 100% due to the Authority earning additional income from Section 8 fraud recoveries not originally budgeted for.

Other Revenue was over budget by \$33,685 or 53% due to favorable variances of \$22,200 for non-dwelling additional cell phone tower rental and \$10,980 for non tenant income being more than originally anticipated.

Administrative Expenses were under budget by \$185,561 or 10% due to favorable variances in salaries and benefits of \$173,801 due to employee resignations and hiring freeze through November 2006.

Tenant Services were under budget by \$104,917 or 41% due to favorable variances in salaries and benefits of \$59,146 due to employee resignation, in resident services of \$16,066 due to resident councils not requesting funding, and in resident publications & other services due to reduction of monthly newsletters.

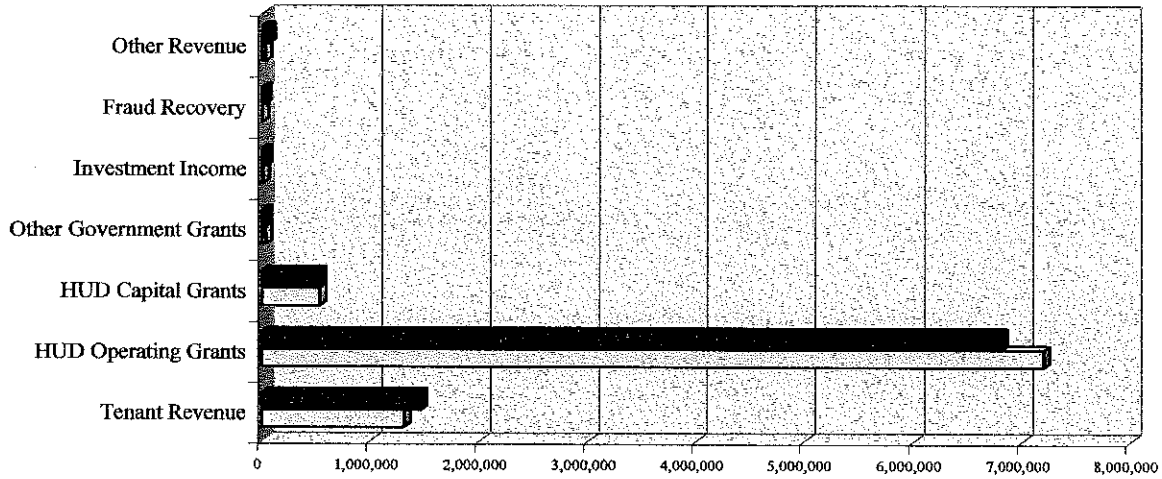
Maintenance was under budget by \$119,439 or 10% due to \$157,763 favorable variance in salaries and benefits due to employee resignation, hiring freeze through November 2006, and less overtime.

Housing Assistance Payments were under budget by \$330,204 or 10% due to under leasing by 19%.

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FISCAL YEAR ENDING DECEMBER 31, 2006

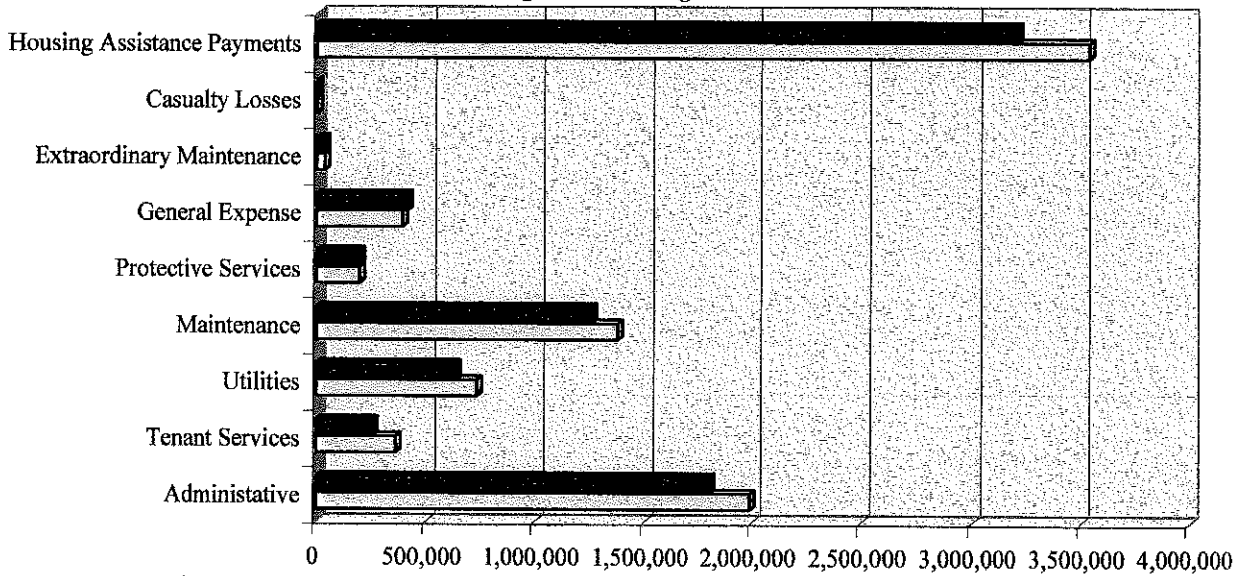
The diagrams below illustrate the Authority's Budget compared to Actual for Revenue and Expense for Fiscal Year Ending December 31, 2006:

Revenues - Budget Vs. Actual



	Tenant Revenue	HUD Operating Grants	HUD Capital Grants	Other Government Grants	Investment Income	Fraud Recovery	Other Revenue
Actual	1,454,580	6,807,662	531,083	30,392	32,737	24,202	63,745
Budget	1,301,490	7,196,686	531,083	30,392	7,800	0	30,060

Expenses - Budget Vs. Actual



	Administrative	Tenant Services	Utilities	Maintenance	Protective Services	General Expense	Extraordinary Maintenance	Casualty Losses	Housing Assistance Payments
Actual	1,803,929	256,941	632,854	1,256,558	196,240	411,417	35,595	0	3,207,985
Budget	1,989,490	361,858	730,850	1,375,997	196,240	390,330	35,695	0	3,538,189

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

As of year end, the Authority had \$6,275,861 invested in a variety of capital assets as reflected in the following table which represents a net decrease (additions, deductions, and depreciation) of \$852,258 or 12% from the end of the previous fiscal year.

Table 5

ANALYSIS OF CAPITAL ASSET ACTIVITY

	2006	2005	Net Change	Percent Variance
Land	974,719	974,719	0	0.0%
Buildings	38,500,805	38,497,990	2,815	0.0%
Furniture, Equipment, & Machinery - Administration	1,096,111	1,031,744	64,367	6.2%
Site Improvements	<u>1,327,330</u>	<u>1,322,330</u>	<u>5,000</u>	<u>0.4%</u>
Total Fixed Assets	<u>41,898,965</u>	<u>41,826,783</u>	<u>72,182</u>	<u>0.2%</u>
Accumulated Depreciation	-36,102,636	-34,716,394	1,386,242	-4.0%
Construction in Progress	<u>479,532</u>	<u>17,730</u>	<u>461,802</u>	<u>96.3%</u>
Net Fixed Assets	<u><u>6,275,861</u></u>	<u><u>7,128,119</u></u>	<u><u>-852,258</u></u>	<u><u>-12.0%</u></u>

Furniture, Equipment, & Machinery-Administration increased by \$64,367 or 6.2%. The following is a list of the assets purchased during the fiscal year ending December 31, 2006:

Shredder –Sec 8	2,900
Lawn Tractor 29-1	3,005
Floor Scrubber 29-1	2,172
Lawn Tractor 29-5	3,005
Floor Scrubber 29-5	2,172
Key Cabinet 29-6	8,501
Maintenance Vans (3)	42,612

Accumulated Depreciation increased by \$1,386,242 or 4% due to the current year depreciation expense.

Construction in Progress increased by \$461,802 or 96.3%. This increase represents the various modernization activities from the Capital Funds program completed on various sites of the Authority. As individual capital fund grants are completely expended and closed out, modernization costs are then transferred to the fixed asset accounts.

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF DECEMBER 31, 2006**

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,091,336
Accounts receivable (interfund eliminated)	177,679
Inventory - net of allowance	143,800
Deferred charges	<u>139,997</u>

Total Current Assets \$ 2,552,812

CAPITAL ASSETS

Land, buildings and equipment	\$ 42,378,497
Less: Accumulated depreciation	<u>-36,102,636</u>

Net Capital Assets \$ 6,275,861

TOTAL ASSETS \$ 8,828,673

LIABILITIES

Current Liabilities

Accounts payable (interfund eliminated)	\$ 176,973
Accrued liabilities	194,493
Tenant security deposits	108,149
Deferred credits	2,115
Other payables	<u>9,361</u>

Total Current Liabilities \$ 491,091

Noncurrent Liabilities

Accrued compensated absences	\$ 29,362
FSS escrow	<u>15,868</u>

Total Noncurrent Liabilities \$ 45,230

TOTAL LIABILITIES \$ 536,321

NET ASSETS

Unrestricted net assets	\$ 2,016,491
Invested in capital assets	<u>6,275,861</u>

TOTAL NET ASSETS \$ 8,292,352

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

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

**STATEMENT OF REVENUES AND EXPENSES - PROPRIETARY FUNDS
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

OPERATING INCOME

Tenant Income

Tenant rental revenue	\$ 1,345,863
Tenant revenue - other	<u>108,717</u>

Total Tenant and Other Rental Income \$ 1,454,580

Non-Tenant Income

HUD grants - operating	\$ 6,807,662
Other government grants	30,392
Other revenue	63,745
Fraud recovery	<u>24,202</u>

Total Non-Tenant Income \$ 6,926,001

Total Operating Income \$ 8,380,581

OPERATING EXPENSES

Administration	\$ 1,803,929
Tenant services	256,941
Utilities	632,854
Ordinary maintenance and operation	1,256,558
General expense	411,417
Protective services	196,240
Casualty losses	-100
Extraordinary maintenance	35,695
Housing assistance payments	3,207,985
Depreciation	<u>1,386,241</u>

Total Operating Expenses \$ 9,187,760

Net Operating Income (Loss) \$ -807,179

NONOPERATING INCOME (EXPENSES)

HUD grants - capital	\$ 531,083
Interest income	<u>32,737</u>

Total Nonoperating Income (Expenses) \$ 563,820

Changes in net assets	\$ -243,359
Prior year adjustments	110,376
Net assets, beginning of year	<u>8,425,335</u>

Net Assets, end of year \$ 8,292,352

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

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Operating Activities

Operating subsidy	\$ 6,769,590
Other operating grants	30,392
Tenant revenue	1,464,947
Other revenues	87,947
Housing assistance payments	-3,207,985
Payments to employees	-1,907,231
Payments to suppliers and contractors	<u>-2,576,644</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 661,016</u>

Investing Activities

Investments (purchased) redeemed	\$ 1,150,000
Interest income	<u>32,737</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,182,737</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 531,083
(Additions) deletions to capital assets	<u>-533,983</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -2,900</u>
Net Change in Cash	\$ 1,840,853
Cash Balance at December 31, 2005	<u>250,483</u>
Cash Balance at December 31, 2006	<u><u>\$ 2,091,336</u></u>

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

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

Net operating income (loss)	\$ -807,179
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	1,386,241
Adjustment to net assets	110,376
(Increase) decrease in accounts receivable	-30,810
(Increase) decrease in deferred charges	-2,438
(Increase) decrease in inventories	35,366
(Increase) decrease in other assets	4,517
Increase (decrease) in accounts payable	10,557
Increase (decrease) in accrued liabilities	20,891
Increase (decrease) in deferred revenues	-41,178
Increase (decrease) in other liabilities	<u>-25,327</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 661,016</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

The Housing Authority was established January 25, 1965 by the City of East Chicago pursuant to the laws of the State of Indiana, as a municipal corporation (IC36-7-18-14), to transact business and to have powers as defined therein. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) had direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of East Chicago and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of East Chicago is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- * Low Rent Public Housing
- * Section 8 Choice Vouchers
- * Section 8 Moderate Rehabilitation
- * Capital Fund Program
- * State and Local
- * Multi Sport Summer Youth
- * ROSS

These programs are all accounted for within the 'Proprietary' (enterprise) fund as described below:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(d) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. Highly liquid assets are those with a maturity of less than one month at date of purchase.

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2006, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(f) Inventories and Materials -

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Investments -

Investments are stated at cost which approximates market.

(h) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

If the initial cost of a piece of equipment and/or other personal property is five hundred dollars (\$500) or more and the anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

- 1) The total development construction costs incurred for each project at the end of the initial operating period,
- 2) nonexpendable equipment, and
- 3) property betterments and additions
- 4) land acquisitions.

These are recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Buildings	27-1/2 years
Equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years

(i) Income Tax -

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Annual Contributions/Subsidies and Other Grants

Annual contributions and subsidies received from the Department of HUD are recorded as grant revenues.

Other grants (such as CFP grants) are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(k) The Housing Authority adopts a budget annually. The budget is submitted to the Department of Housing and Urban Development for approval. Subsequent budget revisions may also be required to be submitted to HUD for approval.

(l) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

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

All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

Custodial Credit Risk

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

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

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

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

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

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

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

Category 3 - Deposits which are not collateralized or insured.

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

	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 1,209,245	\$ 1,215,671
Voucher	881,983	888,051
State and Local	<u>108</u>	<u>108</u>
Total	<u>\$ 2,091,336</u>	<u>\$ 2,103,830</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 3 - Compensated Absences

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

Employee's vacation hours as of December 31, 1997 were placed into an old bank but will not be used until they have used all of their new vacation bank. Only unused vacation time from the old bank as of December 31, 1997 will carryover from year to year until fully exhausted. Maximum vacation hours from the old bank if an employee is entitled to if they leave the agency is still 360 hours.

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

Annual Leave

- A. Annual leave requests are granted on a seniority basis based on years of employment. Employees are required to take annual leave in the year in which it is earned. Annual leave will not be advanced to employees except at the discretion of the executive director. Newly hired employees are not entitled to annual leave until they have successfully completed one full year of employment.
- B. All permanent full-time administrative employees shall receive a paid vacation after one full year of employment. Paid vacations will be granted as follows to employees according to years of service:

½ on 1/16 ; ½ on 7/16
Less than 5 years - 12 days annually
More than five years but less than 10 years - 18 days annually
Ten years or more - 24 days annually

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

½ on 1/16; ½ on 7/16
Less than 5 years - 10 days annually
More than 5 years but less than 15 years - 15 days annually
Fifteen years or more - 20 days annually

Accumulation of Vacation Time

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 4 - Defined Contribution Plan

The Housing Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Housing Authority contributions forfeited by employees who leave employment prior to vesting are used to reduce current costs and contribution requirements. For the fiscal year ended December 31, 2006, the actual contributions by the Housing Authority were \$287,825.

Note 5 - Accounts Receivable - Net of Allowance

Accounts receivable consists of the following accounts:

HUD	\$ 123,072
Tenants accounts receivable (net)	19,017
Fraud recovery	2,716
Other	<u>32,874</u>
Subtotal	\$ 177,679
Interfund	<u>161,280</u>
Total	<u>\$ 338,959</u>

Note 6 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	<u>\$ 139,997</u>
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Note 7 - Fixed Assets

Balance as of December 31, 2006	\$ 6,275,861
Balance as of December 31, 2005	<u>7,128,119</u>
Net Increase (Decrease)	<u>\$ -852,258</u>

Reconciliation

Property betterments and additions	\$ 533,983
Depreciation expense	<u>-1,386,241</u>
Net Increase (Decrease)	<u>\$ -852,258</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 7 - Fixed Assets (Continued)

<u>Analysis</u>	01/01/2006 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	12/31/2006 <u>Balance</u>
Land	\$ 974,719	\$ 0	\$ 0	\$ 974,719
Buildings	38,497,990	7,815	5,000	38,500,805
Equipment and furniture	1,031,744	64,367	0	1,096,111
Leasehold improvements	1,322,330	5,000	0	1,327,330
Construction in progress	<u>17,730</u>	<u>461,802</u>	<u>0</u>	<u>479,532</u>
Total	\$ 41,844,513	\$ 538,984	\$ 5,000	\$ 42,378,497
Accumulated depreciation	<u>-34,716,394</u>	<u>0</u>	<u>1,386,242</u>	<u>-36,102,636</u>
Total	<u>\$ 7,128,119</u>	<u>\$ 538,984</u>	<u>\$ 1,391,242</u>	<u>\$ 6,275,861</u>

Note 8 - Notes Payable

On August 4, 1987, the U.S. Department of Housing and Urban Development (HUD) issued notice PIH 87-212 to implement the provisions of the Housing and Community Development Reconciliation Amendments of 1985 (PL 99-272, enacted April 7, 1986). This notice states, in part, the following:

Project debt to HUD (HUD-held notes) will be forgiven after a debt forgiveness amendment to the consolidated Annual Contributions Contract has been executed by HUD and the Public Housing Authority and after the Actual Development Cost Certificate has been included in an audit and approved.

As a part of the HUD mandated GAAP conversion and the above referenced notice, all HUD-held notes were recorded as debt forgiveness during a prior fiscal year.

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	<u>\$ 176,973</u>
Interfund	<u>\$ 161,280</u>
Total	<u>\$ 338,253</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 10 - Accrued Liabilities

At December 31, 2006 the following accounts were accrued:

Current Portion:

Payroll and payroll taxes	\$ 42,045
PILOT	<u>152,448</u>
Total Current Portion	<u>\$ 194,493</u>

Noncurrent Portion:

Accrued compensated absences	<u>\$ 29,362</u>
Total	<u>\$ 223,855</u>

Note 11 - Deferred Credits

This classification consists of the following accounts:

Tenants prepaid rent	\$ 2,007
Other deferred revenue	<u>108</u>
Total	<u>\$ 2,115</u>

Note 12 - Administrative Fee

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

Note 13 - Allocation of Costs

The PHA allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program. Management considers this to be an equitable method of allocation.

Note 14 - Contingencies

Federal Grants

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 15 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Adjustment of December 31, 2004 settlement by HUD	\$ <u>110,376</u>
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Note 16 - Risk Management

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

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

Note 17 - Economic Dependency

The Housing Authority received most of its revenue (82%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850a	C-651	FYE 12/31/06	\$ 2,125,035	\$ 2,125,035	\$ 2,125,035
Lower Income Housing Assistance Program - Moderate Rehabilitation*	14.856	C-2030K	FYE 12/31/06	\$ 357,445	\$ 357,445	\$ 357,445
Housing Choice Voucher Program*	14.871	C-2030V	FYE 12/31/06	\$ 3,674,164	\$ 3,674,164	\$ 3,674,164
Public Housing - Capital Fund*	14.872	C-651	FYE 12/31/06	\$ 4,491,721	\$ 1,164,865	\$ 1,164,865
Total HUD Assistance				\$ 10,648,365	\$ 7,321,509	\$ 7,321,509
<u>Pass Through Grants</u>						
ROSS Grant	14.870	----	FYE 12/31/06	\$ 37,350	\$ 17,236	\$ 17,236
Multi Sport Summer Youth	----	----	FYE 12/31/06	\$ 34,689	\$ 27,893	\$ 27,893
Total Federal Assistance				\$ 10,720,404	\$ 7,366,638	\$ 7,366,638

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Note 1: Expenditures to the Housing Choice Voucher Program are reported equal to revenues recognized. This method of expenditure recognition does not reconcile to the Housing Authority's financial statements, but is required by HUD.

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

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Current Assets			
Cash and cash equivalents	\$ 1,209,245	\$ 0	\$ 881,983
Accounts receivable (net of allowance)	50,361	74,509	3,796
Due from other funds	161,280	0	0
Inventory	143,800	0	0
Deferred charges	<u>136,225</u>	<u>0</u>	<u>3,471</u>
Total Current Assets	<u>\$ 1,700,911</u>	<u>\$ 74,509</u>	<u>\$ 889,250</u>
Capital Assets			
Land, buildings and equipment	\$ 41,277,049	\$ 977,396	\$ 104,312
Less: Accumulated depreciation	<u>-35,916,252</u>	<u>-72,871</u>	<u>-101,340</u>
Net Capital Assets	<u>\$ 5,360,797</u>	<u>\$ 904,525</u>	<u>\$ 2,972</u>
TOTAL ASSETS	<u>\$ 7,061,708</u>	<u>\$ 979,034</u>	<u>\$ 892,222</u>
LIABILITIES			
Current Liabilities			
Accounts payable - vendors	\$ 175,726	\$ 0	\$ 1,148
Due to other funds	0	74,509	76,610
Other payables	8,841	0	520
Accrued liabilities	189,047	0	5,010
Tenant security deposits	108,149	0	0
Deferred revenue	<u>2,007</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 483,770</u>	<u>\$ 74,509</u>	<u>\$ 83,288</u>
Noncurrent Liabilities			
Accrued compensated absences	\$ 28,524	\$ 0	\$ 771
FSS escrow	<u>5,450</u>	<u>0</u>	<u>10,418</u>
Total Noncurrent Liabilities	<u>\$ 33,974</u>	<u>\$ 0</u>	<u>\$ 11,189</u>
TOTAL LIABILITIES	<u>\$ 517,744</u>	<u>\$ 74,509</u>	<u>\$ 94,477</u>
NET ASSETS			
Unrestricted net assets	\$ 1,183,167	\$ 0	\$ 794,773
Invested in capital assets	<u>5,360,797</u>	<u>904,525</u>	<u>2,972</u>
TOTAL NET ASSETS	<u>\$ 6,543,964</u>	<u>\$ 904,525</u>	<u>\$ 797,745</u>

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

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006
(CONTINUED)**

<u>ASSETS</u>	<u>Mod Rehab</u>	State and <u>Local</u>	Multi Sport <u>Summer Youth</u>	<u>ROSS</u>
Current Assets				
Cash and cash equivalents	\$ 0	\$ 108	\$ 0	\$ 0
Accounts receivable (net of allowance)	48,563	0	450	0
Deferred charges	<u>301</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 48,864</u>	<u>\$ 108</u>	<u>\$ 450</u>	<u>\$ 0</u>
Capital Assets				
Land, buildings and equipment	\$ 19,740	\$ 0	\$ 0	\$ 0
Less: Accumulated depreciation	<u>-12,173</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Capital Assets	<u>\$ 7,567</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL ASSETS	<u>\$ 56,431</u>	<u>\$ 108</u>	<u>\$ 450</u>	<u>\$ 0</u>
LIABILITIES				
Current Liabilities				
Accounts payable - vendors	\$ 99	\$ 0	\$ 0	\$ 0
Due to other funds	9,711	0	450	0
Accrued liabilities	436	0	0	0
Deferred revenue	<u>0</u>	<u>108</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 10,246</u>	<u>\$ 108</u>	<u>\$ 450</u>	<u>\$ 0</u>
Noncurrent Liabilities				
Accrued compensated absences	<u>\$ 67</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 67</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL LIABILITIES	<u>\$ 10,313</u>	<u>\$ 108</u>	<u>\$ 450</u>	<u>\$ 0</u>
NET ASSETS				
Unrestricted net assets	\$ 38,551	\$ 0	\$ 0	\$ 0
Invested in capital assets	<u>7,567</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL NET ASSETS	<u>\$ 46,118</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>OPERATING INCOME</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant Income			
Tenant rental revenue	\$ 1,345,863	\$ 0	\$ 0
Tenant revenue - other	<u>108,717</u>	<u>0</u>	<u>0</u>
Total Tenant Income	<u>\$ 1,454,580</u>	<u>\$ 0</u>	<u>\$ 0</u>
Non-Tenant Income			
HUD grants - operating	\$ 2,125,035	\$ 633,782	\$ 3,674,164
Other revenue	63,240	0	505
Fraud recovery	<u>0</u>	<u>0</u>	<u>24,076</u>
Total Non-Tenant Income	<u>\$ 2,188,275</u>	<u>\$ 633,782</u>	<u>\$ 3,698,745</u>
Total Operating Income	<u>\$ 3,642,855</u>	<u>\$ 633,782</u>	<u>\$ 3,698,745</u>
<u>OPERATING EXPENSES</u>			
Administration	\$ 1,293,277	\$ 102,980	\$ 374,727
Tenant services	209,313	0	0
Utilities	632,854	0	0
Ordinary maintenance and operation	957,691	298,867	0
General expense	401,510	0	9,202
Protective services	0	196,240	0
Casualty losses	-100	0	0
Extraordinary maintenance	0	35,695	0
Housing assistance payments	0	0	2,883,308
Depreciation	<u>1,327,045</u>	<u>50,528</u>	<u>4,720</u>
Total Operating Expenses	<u>\$ 4,821,590</u>	<u>\$ 684,310</u>	<u>\$ 3,271,957</u>
Net Operating Income (Loss)	<u>\$ -1,178,735</u>	<u>\$ -50,528</u>	<u>\$ 426,788</u>
<u>Nonoperating Income (Expense)</u>			
HUD - capital	\$ 0	\$ 531,083	\$ 0
Interest income	<u>24,768</u>	<u>0</u>	<u>7,298</u>
Total Nonoperating Income (Expense)	<u>\$ 24,768</u>	<u>\$ 531,083</u>	<u>\$ 7,298</u>
Changes in Net Assets	<u>\$ -1,153,967</u>	<u>\$ 480,555</u>	<u>\$ 434,086</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

<u>OPERATING INCOME</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>Multi Sport Summer Youth</u>	<u>ROSS</u>
Non-Tenant Income				
HUD grants - operating	\$ 357,445	\$ 0	\$ 0	\$ 17,236
Other grants	0	2,499	27,893	0
Fraud recovery	<u>126</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 357,571</u>	<u>\$ 2,499</u>	<u>\$ 27,893</u>	<u>\$ 17,236</u>
<u>OPERATING EXPENSES</u>				
Administration	\$ 32,945	\$ 0	\$ 0	\$ 0
Tenant services	0	2,499	27,893	17,236
General expense	705	0	0	0
Housing assistance payments	324,677	0	0	0
Depreciation	<u>3,948</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	<u>\$ 362,275</u>	<u>\$ 2,499</u>	<u>\$ 27,893</u>	<u>\$ 17,236</u>
Net Operating Income (Loss)	<u>\$ -4,704</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Nonoperating Income (Expense)</u>				
Interest income	<u>\$ 671</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Nonoperating Income (Expense)	<u>\$ 671</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Changes in Net Assets	<u><u>\$ -4,033</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at December 31, 2005	\$ 6,687,842	\$ 423,970	\$ 4,792
Current year net income (loss)	<u>-1,327,045</u>	<u>480,555</u>	<u>-1,820</u>
Balance at December 31, 2006	<u>\$ 5,360,797</u>	<u>\$ 904,525</u>	<u>\$ 2,972</u>
 <u>Unrestricted Net Assets</u>			
Balance at December 31, 2005	\$ 1,010,089	\$ 0	\$ 248,491
Current year net income (loss)	173,078	0	435,906
Prior year adjustment	<u>0</u>	<u>0</u>	<u>110,376</u>
Balance at December 31, 2006	<u>\$ 1,183,167</u>	<u>\$ 0</u>	<u>\$ 794,773</u>
Total Net Assets	<u>\$ 6,543,964</u>	<u>\$ 904,525</u>	<u>\$ 797,745</u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

<u>Invested in Capital Assets</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>Multi Sport Summer Youth</u>	<u>ROSS</u>
Balance at December 31, 2005	\$ 11,515	\$ 0	\$ 0	\$ 0
Current year net income (loss)	<u>-3,948</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2006	<u>\$ 7,567</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Unrestricted Net Assets</u>				
Balance at December 31, 2005	\$ 38,636	\$ 0	\$ 0	\$ 0
Current year net income (loss)	<u>-85</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at December 31, 2006	<u>\$ 38,551</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Assets	<u>\$ 46,118</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating subsidy	\$ 2,125,035	\$ 632,338	\$ 3,674,164
Tenant revenue	1,464,947	0	0
Other revenue	63,240	0	505
Fraud recovery	0	0	24,076
Housing assistance payments	0	0	-2,883,308
Payments to employees	-1,552,282	-47,538	-248,638
Payments to suppliers and contractors	<u>-1,992,972</u>	<u>-584,800</u>	<u>24,557</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 107,968</u>	<u>\$ 0</u>	<u>\$ 591,356</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ 900,000	\$ 0	\$ 250,000
Interest income	<u>24,768</u>	<u>0</u>	<u>7,298</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 924,768</u>	<u>\$ 0</u>	<u>\$ 257,298</u>
 <u>Capital and Related Financing Activities</u>			
Additions (deletions) to fixed assets	\$ 0	\$ -531,083	\$ -2,900
HUD grants - capital	<u>0</u>	<u>531,083</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ -2,900</u>
Net Change in Cash	\$ 1,032,736	\$ 0	\$ 845,754
Cash Balance at December 31, 2005	<u>176,509</u>	<u>0</u>	<u>36,229</u>
Cash Balance at December 31, 2006	<u>\$ 1,209,245</u>	<u>\$ 0</u>	<u>\$ 881,983</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -1,178,735	\$ -50,528	\$ 426,788
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	1,327,045	50,528	4,720
Adjustment to net assets	0	0	110,376
(Increase) decrease in accounts receivable	-33,394	-1,444	37,469
(Increase) decrease in deferred charges	-1,764	0	-621
(Increase) decrease in inventories	35,366	0	0
(Increase) decrease in other assets	3,167	0	1,242
Increase (decrease) in accounts payable	-56,360	1,444	64,340
Increase (decrease) in accrued liabilities	15,445	0	5,010
Increase (decrease) in deferred revenues	828	0	-36,271
Increase (decrease) in other liabilities	<u>-3,630</u>	<u>0</u>	<u>-21,697</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 107,968</u>	<u>\$ 0</u>	<u>\$ 591,356</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

<u>Operating Activities</u>	<u>Mod Rehab</u>	<u>State and Local</u>	<u>Multi Sport Summer Youth</u>	<u>ROSS</u>
Operating grants	\$ 311,780	\$ 2,499	\$ 27,893	\$ 26,273
Fraud recovery	126	0	0	0
Housing assistance payments	-324,677	0	0	0
Payments to employees	-21,620	0	-24,243	-12,910
Payments to suppliers and contractors	<u>-1,819</u>	<u>-4,597</u>	<u>-3,650</u>	<u>-13,363</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -36,210</u>	<u>\$ -2,098</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Investing Activities</u>				
Interest income	<u>\$ 671</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 671</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Cash	\$ -35,539	\$ -2,098	\$ 0	\$ 0
Cash Balance at December 31, 2005	<u>35,539</u>	<u>2,206</u>	<u>0</u>	<u>\$ 0</u>
Cash Balance at December 31, 2006	<u>\$ 0</u>	<u>\$ 108</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>Mod Rehab</u>	<u>State and Local</u>
Net operating income (loss)	\$ -4,704	\$ 0
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	3,948	0
(Increase) decrease in accounts receivable	-42,028	0
(Increase) decrease in deferred charges	-53	0
(Increase) decrease in other assets	108	0
Increase (decrease) in accounts payable	9,720	0
Increase (decrease) in accrued liabilities	436	0
Increase (decrease) in deferred revenues	<u>-3,637</u>	<u>-2,098</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -36,210</u>	<u>\$ -2,098</u>
	<u>Multi Sport Summer Youth</u>	<u>ROSS</u>
Net operating income (loss)	\$ 0	\$ 0
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	0	0
(Increase) decrease in accounts receivable	-450	9,037
(Increase) decrease in deferred charges	0	0
(Increase) decrease in other assets	0	0
Increase (decrease) in accounts payable	450	-9,037
Increase (decrease) in accrued liabilities	0	0
Increase (decrease) in deferred revenues	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 0</u>	<u>\$ 0</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P029501-04**

1. The Actual Modernization Costs of Phase IN36P029501-04 are as follows:

Funds approved	\$ 1,600,675
Funds expended	<u>1,600,675</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Project notes, non-HUD	\$ 1,600,675
Funds expended	<u>1,600,675</u>
Excess of Funds Advanced	<u>\$ 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated June 21, 2006, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

I have audited the financial statements of Housing Authority City of East Chicago as of and for the year ended December 31, 2006, and have issued my report thereon dated August 1, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Housing Authority City of East Chicago's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Housing Authority City of East Chicago's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
August 1, 2007


Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

I have audited the compliance of Housing Authority City of East Chicago with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Housing Authority City of East Chicago's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Housing Authority City of East Chicago's management. My responsibility is to express an opinion on Housing Authority City of East Chicago's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Housing Authority City of East Chicago's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Housing Authority City of East Chicago's compliance with those requirements.

In my opinion, Housing Authority City of East Chicago complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

The management of Housing Authority City of East Chicago is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Housing Authority City of East Chicago's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority City of East Chicago's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. I have audited the financial statements of Housing Authority City of East Chicago as of and for the year ended December 31, 2006, and have issued my report thereon dated August 1, 2007. My audit was performed for the purpose of forming an opinion on the financial statements taken 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Housing Authority City of East Chicago in a separate letter dated August 1, 2007.

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

Decatur, Illinois
August 1, 2007


Certified Public Accountant

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2006**

Summary of Auditor's Results

Low Risk Auditee X yes no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? yes X no

* Reportable condition(s) identified that are not
considered to be material weaknesses? yes X none

reported

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? yes X no

* Reportable condition(s) identified that are not
considered to be material weaknesses? yes X none

reported

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

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

Major Programs: (Threshold \$300,000)

CFDA Number(s)

Public and Indian Housing	14.850a
Public Housing - Capital Funds	14.872
Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856

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

STATUS OF PRIOR AUDIT FINDINGS

The prior audit for the period ended December 31, 2005 contained no findings.

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

CURRENT FINDINGS AND RECOMMENDATIONS

There were no audit findings discussed with Sharon Johnson, Director of Finance and other members of management, during the course of the audit or at an exit conference held July 20, 2007.

PHA: IN029 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Other Federal Program 1	Total
111	Cash - Unrestricted	\$1,095,646	\$0	\$0	\$871,565	\$0	\$108	\$0	\$1,967,319
113	Cash - Other Restricted	\$5,450	\$0	\$0	\$10,418	\$0	\$0	\$0	\$15,868
114	Cash - Tenant Security Deposits	\$108,149	\$0	\$0	\$0	\$0	\$0	\$0	\$108,149
100	Total Cash	\$1,209,245	\$0	\$0	\$881,983	\$0	\$108	\$0	\$2,091,336
121	Accounts Receivable - PHA Projects	\$0	\$0	\$0	\$1,080	\$0	\$0	\$0	\$1,080
122	Accounts Receivable - HUD Other Projects	\$0	\$48,563	\$0	\$0	\$74,509	\$0	\$0	\$123,072
124	Accounts Receivable - Other Government	\$0	\$0	\$0	\$0	\$0	\$0	\$450	\$450
125	Accounts Receivable - Miscellaneous	\$31,344	\$0	\$0	\$0	\$0	\$0	\$0	\$31,344
126	Accounts Receivable - Tenants - Dwelling Rents	\$59,666	\$0	\$0	\$0	\$0	\$0	\$0	\$59,666
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-40,649	\$0	\$0	\$0	\$0	\$0	\$0	\$-40,649
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
128	Fraud Recovery	\$15,596	\$0	\$0	\$4,040	\$0	\$0	\$0	\$19,636
128.1	Allowance for Doubtful Accounts - Fraud	\$-15,596	\$0	\$0	\$-1,324	\$0	\$0	\$0	\$-16,920
120	Total Receivables, net of allowances for doubtful accounts	\$50,361	\$48,563	\$0	\$3,796	\$74,509	\$0	\$450	\$177,679
142	Prepaid Expenses and Other Assets	\$136,225	\$301	\$0	\$3,471	\$0	\$0	\$0	\$139,997
143	Inventories	\$145,253	\$0	\$0	\$0	\$0	\$0	\$0	\$145,253
143.1	Allowance for Obsolete Inventories	\$-1,453	\$0	\$0	\$0	\$0	\$0	\$0	\$-1,453
144	Interprogram Due From	\$161,280	\$0	\$0	\$0	\$0	\$0	\$0	\$161,280
150	Total Current Assets	\$1,700,911	\$48,864	\$0	\$889,250	\$74,509	\$108	\$450	\$2,714,092
161	Land	\$974,719	\$0	\$0	\$0	\$0	\$0	\$0	\$974,719
162	Buildings	\$38,074,347	\$0	\$0	\$0	\$426,458	\$0	\$0	\$38,500,805
164	Furniture, Equipment & Machinery - Administration	\$905,653	\$19,740	\$0	\$99,312	\$71,406	\$0	\$0	\$1,096,111
165	Leasehold Improvements	\$1,322,330	\$0	\$0	\$5,000	\$0	\$0	\$0	\$1,327,330
166	Accumulated Depreciation	\$-35,916,252	\$-12,173	\$0	\$-101,340	\$-72,871	\$0	\$0	\$-36,102,636
167	Construction In Progress	\$0	\$0	\$0	\$0	\$479,532	\$0	\$0	\$479,532
160	Total Fixed Assets, Net of Accumulated Depreciation	\$5,360,797	\$7,567	\$0	\$2,972	\$904,525	\$0	\$0	\$6,275,861
180	Total Non-Current Assets	\$5,360,797	\$7,567	\$0	\$2,972	\$904,525	\$0	\$0	\$6,275,861
190	Total Assets	\$7,061,708	\$56,431	\$0	\$892,222	\$979,034	\$108	\$450	\$8,989,953

PHA: IN029 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Other Federal Program 1	Total
312	Accounts Payable <= 90 Days	\$175,726	\$99	\$0	\$1,148	\$0	\$0	\$0	\$176,973
321	Accrued Wage/Payroll Taxes Payable	\$36,599	\$436	\$0	\$5,010	\$0	\$0	\$0	\$42,045
333	Accounts Payable - Other Government	\$152,448	\$0	\$0	\$0	\$0	\$0	\$0	\$152,448
341	Tenant Security Deposits	\$108,149	\$0	\$0	\$0	\$0	\$0	\$0	\$108,149
342	Deferred Revenues	\$2,007	\$0	\$0	\$0	\$0	\$108	\$0	\$2,115
346	Other Current Liabilities	\$8,841	\$0	\$0	\$520	\$0	\$0	\$0	\$9,361
347	Interprogram Due To	\$0	\$9,711	\$0	\$76,610	\$74,509	\$0	\$450	\$161,280
310	Total Current Liabilities	\$483,770	\$10,246	\$0	\$83,288	\$74,509	\$108	\$450	\$652,371
354	Accrued Compensated Absences - Non Current	\$28,524	\$67	\$0	\$771	\$0	\$0	\$0	\$29,362
353	Noncurrent Liabilities - Other	\$5,450	\$0	\$0	\$10,418	\$0	\$0	\$0	\$15,868
350	Total Noncurrent Liabilities	\$33,974	\$67	\$0	\$11,189	\$0	\$0	\$0	\$45,230
300	Total Liabilities	\$517,744	\$10,313	\$0	\$94,477	\$74,509	\$108	\$450	\$697,601
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$5,360,797	\$7,567	\$0	\$2,972	\$904,525	\$0	\$0	\$6,275,861
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$1,183,167	\$38,551	\$0	\$794,773	\$0	\$0	\$0	\$2,016,491
513	Total Equity/Net Assets	\$6,543,964	\$46,118	\$0	\$797,745	\$904,525	\$0	\$0	\$8,292,352
600	Total Liabilities and Equity/Net Assets	\$7,061,708	\$56,431	\$0	\$892,222	\$979,034	\$108	\$450	\$8,989,953

PHA: IN029 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Other Federal Program 1	Total
703	Net Tenant Rental Revenue	\$1,345,863	\$0	\$0	\$0	\$0	\$0	\$0	\$1,345,863
704	Tenant Revenue - Other	\$108,717	\$0	\$0	\$0	\$0	\$0	\$0	\$108,717
705	Total Tenant Revenue	\$1,454,580	\$0	\$0	\$0	\$0	\$0	\$0	\$1,454,580
706	HUD PHA Operating Grants	\$2,125,035	\$357,445	\$17,236	\$3,874,164	\$633,782	\$0	\$0	\$6,807,662
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$531,083	\$0	\$0	\$531,083
708	Other Government Grants	\$0	\$0	\$0	\$0	\$0	\$2,499	\$27,893	\$30,392
711	Investment Income - Unrestricted	\$24,768	\$671	\$0	\$7,298	\$0	\$0	\$0	\$32,737
714	Fraud Recovery	\$0	\$126	\$0	\$24,076	\$0	\$0	\$0	\$24,202
715	Other Revenue	\$63,240	\$0	\$0	\$505	\$0	\$0	\$0	\$63,745
700	Total Revenue	\$3,667,623	\$358,242	\$17,236	\$3,706,043	\$1,164,865	\$2,499	\$27,893	\$8,944,401

PHA: IN029 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat IN029MR0002	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Other Federal Program 1	Total
911	Administrative Salaries	\$867,291	\$22,056	\$0	\$253,648	\$47,538	\$0	\$0	\$1,190,533
912	Auditing Fees	\$2,912	\$232	\$0	\$2,668	\$0	\$0	\$0	\$5,812
914	Compensated Absences	\$-3,381	\$0	\$0	\$0	\$0	\$0	\$0	\$-3,381
915	Employee Benefit Contributions - Administrative	\$275,890	\$6,635	\$0	\$72,415	\$18,016	\$0	\$0	\$372,956
916	Other Operating - Administrative	\$150,565	\$4,022	\$0	\$45,996	\$37,426	\$0	\$0	\$238,009
921	Tenant Services - Salaries	\$147,232	\$0	\$12,910	\$0	\$0	\$0	\$24,243	\$184,385
923	Employee Benefit Contributions - Tenant Services	\$51,762	\$0	\$4,326	\$0	\$0	\$0	\$2,605	\$58,693
924	Tenant Services - Other	\$10,319	\$0	\$0	\$0	\$0	\$2,499	\$1,045	\$13,863
931	Water	\$52,999	\$0	\$0	\$0	\$0	\$0	\$0	\$52,999
932	Electricity	\$261,412	\$0	\$0	\$0	\$0	\$0	\$0	\$261,412
933	Gas	\$318,443	\$0	\$0	\$0	\$0	\$0	\$0	\$318,443
941	Ordinary Maintenance and Operations - Labor	\$521,118	\$0	\$0	\$0	\$0	\$0	\$0	\$521,118
942	Ordinary Maintenance and Operations - Materials and Other	\$169,428	\$0	\$0	\$0	\$0	\$0	\$0	\$169,428
943	Ordinary Maintenance and Operations - Contract Costs	\$91,896	\$0	\$0	\$0	\$298,867	\$0	\$0	\$390,763
945	Employee Benefit Contributions - Ordinary Maintenance	\$175,249	\$0	\$0	\$0	\$0	\$0	\$0	\$175,249
952	Protective Services - Other Contract Costs	\$0	\$0	\$0	\$0	\$196,240	\$0	\$0	\$196,240
961	Insurance Premiums	\$261,997	\$705	\$0	\$8,111	\$0	\$0	\$0	\$270,813
962	Other General Expenses	\$259	\$0	\$0	\$1,091	\$0	\$0	\$0	\$1,350
963	Payments in Lieu of Taxes	\$76,898	\$0	\$0	\$0	\$0	\$0	\$0	\$76,898
964	Bad Debt - Tenant Rents	\$62,356	\$0	\$0	\$0	\$0	\$0	\$0	\$62,356
969	Total Operating Expenses	\$3,494,645	\$33,650	\$17,236	\$383,929	\$598,087	\$2,499	\$27,893	\$4,557,939
970	Excess Operating Revenue over Operating Expenses	\$172,978	\$324,592	\$0	\$3,322,114	\$566,778	\$0	\$0	\$4,386,462
971	Extraordinary Maintenance	\$0	\$0	\$0	\$0	\$35,695	\$0	\$0	\$35,695
972	Casualty Losses - Non-Capitalized	\$-100	\$0	\$0	\$0	\$0	\$0	\$0	\$-100
973	Housing Assistance Payments	\$0	\$324,677	\$0	\$2,883,308	\$0	\$0	\$0	\$3,207,985
974	Depreciation Expense	\$1,327,045	\$3,948	\$0	\$4,720	\$50,528	\$0	\$0	\$1,386,241
900	Total Expenses	\$4,821,590	\$362,275	\$17,236	\$3,271,957	\$684,310	\$2,499	\$27,893	\$9,187,760
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-1,153,967	\$-4,033	\$0	\$434,086	\$480,555	\$0	\$0	\$-243,359

PHA: IN029 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat	Resident Opportunity and Supportive Services	Housing Choice Vouchers	Public Housing Capital Fund Program	State/Local	Other Federal Program 1	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$7,697,931	\$50,151	\$0	\$253,283	\$423,970	\$0	\$0	\$8,425,335
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$0	\$110,376	\$0	\$0	\$0	\$110,376
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$366,229	\$0	\$3,674,164	\$0	\$0	\$0	\$4,040,393
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$54,111	\$0	\$0	\$0	\$0	\$0	\$54,111
1116	Total Annual Contributions Available	\$0	\$420,340	\$0	\$3,674,164	\$0	\$0	\$0	\$4,094,504
1120	Unit Months Available	9,696	708	0	7,141	0	0	0	17,545
1121	Number of Unit Months Leased	8,014	650	0	6,211	0	0	0	14,875
1117	Administrative Fee Equity	\$0	\$0	\$0	\$325,174	\$0	\$0	\$0	\$325,174
1118	Housing Assistance Payments Equity	\$0	\$0	\$0	\$472,571	\$0	\$0	\$0	\$472,571

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Date Submission Created: 09/14/2007

| Top of Page |