



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B34349

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 15, 2009

Board of Commissioners
Housing Authority of the
City of Kendallville
240 Angling Rd.
Kendallville, IN 46755

We have reviewed the audit report prepared by Jean Sickels, 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 Auditor's Report, management did not provide written representations, the scope of the audit work was not sufficient, and an opinion was not expressed on the financial statements of the Housing Authority of the City of Kendallville, as of December 31, 2006.

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

We call your attention to the findings in the report. The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 on pages 23 and 24 contains a disclaimer of opinion. Pages 26 through 31 contain nine current year audit findings and \$391,155 in questioned costs. Page 32 contains the status of eight prior findings. The management letter contains one comment.

STATE BOARD OF ACCOUNTS

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE

AUDITED FINANCIAL STATEMENTS

KENDALLVILLE, INDIANA
DECEMBER 31, 2006

Jean Sickels

Certified Public Accountant

8518 S Kays Chapel Rd
Fredericksburg, IN 47120
812-472-3527

870 Cinderella Court
Decatur, GA 30033
404-297-9881

HOUSING AUTHORITY
OF THE CITY OF KENDALLVILLE

KENDALLVILLE, INDIANA
DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	i
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	6
 <u>SUPPLEMENTAL FINANCIAL INFORMATION</u>	
Combining Schedule of Program Net Assets	15
Combining Schedule of Program Revenues, Expenses, and Changes in Net Assets	16
Financial Data Schedule	17
Schedule of Expenditures of Federal Awards	20
 <u>OTHER REPORTS</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	23
Schedule of Findings and Questioned Costs	25

Jean Sickels

Certified Public Accountant
8518 S Kays Chapel Rd
Fredericksburg, IN 47120

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Kendallville
240 Angling Road
Kendallville, IN 46755

I was engaged to audit the accompanying financial statements of the Housing Authority of the City of Kendallville, herein referred to as the Authority, as of and for the year ended December 31, 2006, which comprise the Authority's financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management.

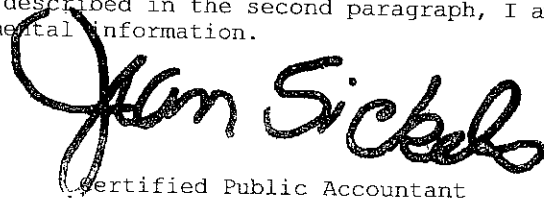
Authority management was unable to provide us with written representations and other information supporting the financial statements including notes, miscellaneous receivables, cash disbursement and payroll information.

Because management did not provide us with written representations, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2007, on my consideration of the Housing Authority of the City of Kendallville' internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries made of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements of the Authority. Also, the supplemental information as listed in the table of contents and Financial Data Schedule are presented for purposes of additional analysis and is not a required part of the financial statements. Because of the audit scope limitation as described in the second paragraph, I am unable to express, and do not express, an opinion on the supplemental information.


Certified Public Accountant

Fredericksburg, IN
November 30, 2007

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING DECEMBER 31, 2006

The management of the Kendallville Housing Authority (PHA) offers this narrative overview and analysis of its audited financial statements for fiscal year ended December 31, 2006. The goal is for the reader to better understand the Authority's financial activities and its overall financial position and to show whether current year revenues covered current year expenses and the extent to which the Authority has invested its capital assets. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begins on page 2.

FINANCIAL HIGHLIGHTS:

- The assets of the PHA exceed its liabilities as of December 31, 2006 by \$2,623,541 (Net Assets).
- The PHA's investment in Capital Assets, net of related debt as of December 31, 2006 was \$2,256,857.
- The PHA's total revenue for the fiscal year end December 31, 2006 was \$1,566,984.
- The PHA's total expenses for the fiscal year end December 31, 2006 were \$1,921,405. Therefore, the PHA's total combined expenses exceeded its total combined revenue by \$354,319.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The following financial statements are included in this report:

- *Statement of Net Assets* - reports the Authority current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the PHA. A comparison between this year and the preceding year is also provided.
- *Statement of Revenue and Expenses* - reports the PHA's various revenue and expenses and provides a comparison between this year and the preceding year.

ANALYSIS OF FINANCIAL STATEMENTS:

STATEMENT OF NET ASSETS

	<u>2006</u>	<u>2005</u>	INCREASE (DECREASE)
Cash and investments	\$ 273,628	\$ 406,647	\$ (133,019)
Other current assets	217,635	106,843	110,792
Capital assets	2,256,857	2,524,559	(267,702)
Non-current assets	<u> </u>	<u>78,768</u>	<u>(78,768)</u>
TOTAL ASSETS	<u>\$ 2,748,120</u>	<u>\$ 3,116,817</u>	<u>\$ (368,697)</u>
Current liabilities	<u>\$ 124,579</u>	<u>\$ 138,957</u>	<u>\$ (14,378)</u>
TOTAL LIABILITIES	<u>124,579</u>	<u>138,957</u>	<u>(14,378)</u>
Invested in capital assets	2,256,857	2,524,559	\$ (267,702)
Unrestricted assets	<u>366,684</u>	<u>453,301</u>	<u>(86,617)</u>
TOTAL NET ASSETS	<u>\$ 2,623,541</u>	<u>\$ 2,977,860</u>	<u>\$ (354,319)</u>

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana
MANAGEMENT DISCUSSION AND ANALYSIS - Continued
FISCAL YEAR ENDING DECEMBER 31, 2006

ANALYSIS OF FINANCIAL STATEMENTS - Continued:

The decrease in cash and investments is due to an increase in the amount of expenses paid during the year.

The increase in other current assets is due to reclassifying the non-current assets to a current asset. Also, the increase is due to an increase in the receivable from HUD.

The decrease in capital assets is due to writing off furniture, equipment and machines – administrative. The decrease is also due to depreciation being recorded for the year end.

The decrease in current liabilities is due to a decrease in accounts payable.

ANALYSIS OF STATEMENT OF REVENUE AND EXPENSES
PRIOR AND CURRENT FISCAL YEAR:

	YEAR ENDING DECEMBER 31,		INCREASE (DECREASE)
	<u>2006</u>	<u>2005</u>	
REVENUE			
Tenant revenue	\$ 317,667	\$ 310,327	\$ 7,340
HUD operating and capital grants	1,212,820	1,337,278	(124,458)
Interest	8,930	8,819	111
Gain/Loss on sale of capital assets	953	-	953
Other revenue	<u>26,614</u>	<u>20,869</u>	<u>5,745</u>
TOTAL REVENUE	<u>\$ 1,566,984</u>	<u>\$ 1,677,293</u>	<u>\$ (110,309)</u>
EXPENSES			
Administrative expenses	\$ 258,385	\$ 322,194	\$ (63,809)
Tenant services	11,054	12,959	(1,905)
Utilities	94,625	88,433	6,192
Ordinary maintenance	221,963	225,507	(3,544)
General expenses	39,616	41,643	(2,027)
Housing assistance payments	1,032,839	1,003,186	29,653
Extraordinary maintenance	6,702	2,609	4,093
Casualty Losses	-	390	(390)
Depreciation	256,221	271,680	(15,459)
Prior Period Adjustment	<u>-102</u>	<u>38</u>	<u>(140)</u>
TOTAL EXPENSES	<u>\$ 1,921,303</u>	<u>\$ 1,968,639</u>	<u>\$ (47,336)</u>
EXCESS OF EXPENSES			
OVER REVENUE	<u>\$ (354,319)</u>	<u>\$ (291,346)</u>	<u>\$ (62,973)</u>

The increase in tenant revenue is due to receiving an increased amount of rent for the units being leased.

The decrease in HUD operating and capital grants is due to a large decrease in the amount of Capital Funds money being drawn down. There was an increase in the amount of money received from HUD in the New Construction program.

The increase in other revenue is due to the commissioners reimbursing the PHA for ineligible expenses.

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana
MANAGEMENT DISCUSSION AND ANALYSIS - Continued
FISCAL YEAR ENDING DECEMBER 31, 2006

ANALYSIS OF STATEMENT OF REVENUE AND EXPENSES
PRIOR AND CURRENT FISCAL YEAR – Continued:

The decrease in administrative expenses is due to the executive director leaving in June. The decrease was also due to a decrease in travel and telephone expenses for the year.

The increase in ordinary maintenance is due to an increase in contract costs. There were two contracts for HAB Inc computer software totaling \$8,462 in 2006 that were not in 2005.

The increase in housing assistance payments is due to an increased expense in the voucher program.

The increase in extraordinary maintenance is due to the purchase of flooring.

SIGNIFICANT TRANSACTIONS

BUDGETARY HIGHLIGHTS

Low-Rent Public Housing (Operations Only)

The Board-approved budget anticipated an operating loss of \$35,352. Actual result of operation was an operating loss before depreciation of \$88,832 a negative budget variance of approximately \$53,480.

CAPITAL ASSET ACTIVITY DURING THE YEAR

There were capital asset purchases made throughout the year. They are as follows:

- Low Rent Program
 - 2004 Capital Funds Project - \$719
 - 2005 Capital Funds Project - \$4,347
 - HAB Inc computer software - \$1,167

There were \$14,145 of capital assets disposed of during the fiscal year ending December 31, 2006.

FUTURE EVENTS (NEW BUSINESS)

None Anticipated

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the PHA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to John Sisson, Executive Director, Kendallville Housing Authority, 240 Angling Road, Kendallville, IN 46755-1002.

FINANCIAL STATEMENTS

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 246,990
Restricted cash and cash equivalents	26,638
Accounts receivable, net	126,852
Prepaid expenses	5,097
Inventory	6,918
Total Current Assets	<u>412,495</u>

Capital Assets

Land and other nondepreciable assets	516,470
Depreciable capital assets, net	1,740,387
Total Capital Assets	<u>2,256,857</u>

Noncurrent Assets

Notes receivable	78,768
Total Noncurrent Assets	<u>78,768</u>

Total Assets

2,748,120

LIABILITIES

Current liabilities

Accounts payable	97,941
Payable from restricted cash and cash equivalents:	
Tenants security deposits	26,638
Total Current Liabilities	<u>124,579</u>

Net Assets

Invested in capital assets	2,256,857
Unrestricted	366,684
Total Net Assets	<u>\$ 2,623,541</u>

The accompanying notes are an integral part of these financial statements

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2006

<u>OPERATING REVENUES</u>	
Rental income	\$ 317,667
Other income	26,614
	344,281
TOTAL OPERATING REVENUE	
	344,281
<u>OPERATING EXPENSES</u>	
Administrative	258,385
Tenant services	11,054
Utilities	94,625
Ordinary maintenance and operation	228,665
General expense	39,323
Housing assistance payments	1,032,839
Depreciation expense	256,221
	1,921,112
TOTAL OPERATING EXPENSES	
	1,921,112
OPERATING INCOME (LOSS)	(1,576,831)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Federal operating grants	1,212,820
Interest income	8,930
Gain on disposal of capital assets	953
Interest expense	(293)
	1,222,410
TOTAL NONOPERATING REVENUES	
	1,222,410
Net income before capital contributions	(354,421)
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET ASSETS	
	(354,421)
TOTAL NET ASSETS - BEGINNING OF YEAR, as originally stated	2,977,860
Prior period adjustments	102
	2,977,962
TOTAL NET ASSETS - BEGINNING OF YEAR, as restated	2,977,962
TOTAL NET ASSETS - END OF YEAR	\$ 2,623,541

The accompanying notes are an integral part of these financial statements

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and other deposits	\$	307,439
Payments to vendors		(374,582)
Payments to land lords		(1,032,839)
Payments to employees		(266,928)
Net Cash Used by Operating Activities		(1,366,910)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal operating grants received		1,212,820
Net Cash From Noncapital Financing Activities		1,212,820

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Gain or loss on disposal of capital assets		953
Purchase of capital assets		11,481
Net Cash Flows Provided (Used) by Capital and Related Financing Activities		12,434

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income		8,930
Interest expense		(293)
Net Cash From Investing Activities		8,637

Net Increase (Decrease) in Cash and Cash Equivalents		(133,019)
Cash - Beginning of year		406,647
Cash - End of year	\$	273,628

Reconciliation of Cash		
Unrestricted	\$	246,990
Restricted		26,638
	\$	273,628

Continued

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

RECONCILIATION OF OPERATING (LOSS) TO
NET CASH USED BY OPERATING ACTIVITIES

Net operating income (loss)	\$	(1,576,831)
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation		256,221
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		(36,842)
Prepaid expenses		2,464
Inventory		2,456
Increase (Decrease) in:		
Accounts payable		(14,378)
Net Cash Flows Provided (Used) by Operating Activities	\$	<u>(1,366,910)</u>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - Summary of Significant Accounting Policies and Organization:

The financial statements of the HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE ("the Authority") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to special purpose governments engaged in business type activities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Organization: Housing Authority of the City of Kendallville is a public body corporate and politic pursuant to the Laws of the State of Indiana, which was, organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other Federal Agencies.

Reporting Entity:

The entity is a public corporation, legally separate, fiscally independent and governed by the Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the financial position and results of operations of the Housing Authority of the City of Kendallville, a primary government. Although it is legally separate from the Housing Authority of the City of Kendallville, the Kendallville Affordable Housing, Inc. is reported as if they were part of the primary government because its sole purpose is to work in conjunction with the Housing Authority to assist with providing housing for low and moderate income individuals and have the same governing boards, accordingly the Kendallville Affordable Housing Inc.'s financial information (component unit) has been blended with the Housing Authority of the City of Kendallville. There are no other component units to be included herewith, but this report does include all programs which are controlled by the entity's governing body.

Activities of the Housing Authority:

At December 31, 2006, the Housing Authority had 283 units in management and was administering other programs as listed below:

<u>Management</u>	
Low-Income Public Housing	118
 <u>Lower Income Housing Assistance Program</u>	
Section 8 New Construction	150
Section 8 Housing Choice Vouchers	<u>15</u>
TOTAL SECTION 8	165
TOTAL ALL PROGRAMS	<u>283</u>
 <u>Other Programs</u>	
Capital Fund Program	
Business Activities	
Component Units	

Basis of Presentation and Accounting: In accordance with uniform financial reporting standards for HUD housing programs, the financial statements are prepared in accordance with U. S. generally accepted accounting principles (GAAP) as applicable to special purpose governments engaged only in business type activities.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 1 - Summary of Significant Accounting Policies and Organization: (continued)

The Authority's financial statements are accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as FASB Statements and Interpretations, APB Opinions, and ARB's issued on or before, November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements.

This special purpose government engaged in activities similar to business activities uses an enterprise fund to account for those operations that are financed and operated in a manner similar to private business, or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. The intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The Authority has no debt.

Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Authority Board or may otherwise be limited by contractual agreements with outside parties.

Budgets: Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for financial statement presentation.

Cash Equivalents: Cash equivalents consist principally of checking accounts, savings accounts and certificates of deposit. These are stated at fair value. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

Interprogram Receivables and Payables: Interprogram receivables/payables are all current, and are the result of the use of the Business Activities Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances is eliminated for the financial statement presentation.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 1 - Summary of Significant Accounting Policies and Organization: (continued)

Investments: Investments are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage are collateralized with securities held by the Authority's agent through the State of Indiana's Collateralization Program. It is the Authority's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Indiana.

Inventories: Inventories (consisting of materials and supplies) are valued at cost using the first in, first out (FIFO) method. If inventory falls below cost due to damage, deterioration or obsolescence, the Authority establishes an allowance for obsolete inventory. In accordance with the consumption method, inventory is expensed when items are actually placed in service.

Prepaid Items: Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

Restricted Assets: Certain assets may be classified as restricted assets on the balance sheet because their use is restricted by contracts or agreements with outside third parties and lending institutions.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets:

a. Book Value: All purchased capital assets are valued at cost when historical records are available. When no historical records are available, capital assets are valued at estimated historical cost. Land values were derived from development closeout documentation.

Donated capital assets are recorded at their fair value at the time they are received. Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenses of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

b. Depreciation: The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 1 - Summary of Significant Accounting Policies and Organization: (continued)

Capital Assets: (Continued)

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings & Improvements	15-40 years
Furniture, Equipment & Machinery	3-10 years

c. Maintenance and Repairs Expenditures: Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$100 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Compensated Absences: Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASB Standards*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Litigation Losses: The Authority recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred the loss is probable and the loss is reasonably estimable.

Annual Contribution Contracts: Annual Contribution Contracts provide that HUD shall have the Authority to audit and examine the records of public housing authorities. Accordingly, final determination of the Authority's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by the Authority.

Risk Management: The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for all property and equipment, employee health and accident insurance, general liability, fire and extended coverage, fidelity bond, automobile, and Director and Officers liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing and producing goods and/or services in connection with providing low income housing programs. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 1 - Summary of Significant Accounting Policies and Organization: (continued)

Restricted Assets: When both restricted and unrestricted resources are available for use, it is the Authorities policy to use unrestricted resources first, then restricted, as they are needed.

Leasing Activities (as Lessor): The Authority is the Lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions, which impact personal income such as local job availability.

NOTE 2 - Deposits, Cash and Cash Equivalents:

1. HUD Deposit Restrictions

HUD requires Authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

2. Risk Disclosures

A. Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the Authority's investment portfolio to maturities not to exceed two years at time of purchase. At December 31, 2006, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

At December 31, 2006, the carrying amount of the Authority's deposits was \$273,628. The deposits are either covered by federal depository insurance, by collateral held by the Authority's agent in the Authority's name or by the Federal Reserve Banks acting as third party agents or by a collateralization agreement. Restricted cash consists of tenant security deposits.

Deposits consist of the following:

Checking accounts	\$ 81,947
Certificates of Deposit	<u>191,681</u>
Total	<u>\$ 273,628</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)

NOTE 3 - Accounts Receivable:

Accounts receivables at December 31, 2006 consist of the following:

HUD	\$ 53,081
Miscellaneous - Receivables	<u>73,771</u>
Total	<u>\$ 126,852</u>

NOTE 4 - Prepaid Expenses:

Prepaid Expenses at December 31, 2006 consist of the following:

Prepaid insurance and other prepaid assets	\$ <u>5,097</u>
--	-----------------

NOTE 5 - Inventory:

Inventory at December 31, 2006, consist of the following:

Inventory, net of allowance of \$(0)	\$ <u>6,918</u>
--------------------------------------	-----------------

NOTE 6 - Capital Assets:

	Beginning Balance <u>12/31/05</u>	Increases	Decreases	Ending Balance <u>12/31/06</u>
Capital assets, not being depreciated:				
Land	\$ 515,170	\$ 0	\$ 0	\$ 515,170
Construction in Progress	<u>6,366</u>	<u>1,300</u>	<u>(6,366)</u>	<u>1,300</u>
Total Capital Assets, not being depreciated	<u>521,536</u>	<u>1,300</u>	<u>(6,366)</u>	<u>516,470</u>
Capital Assets, being depreciated:				
Buildings & Improvements	4,757,818	5,065	0	4,762,883
Furniture, Equipment & Machinery	<u>359,922</u>	<u>0</u>	<u>(25,625)</u>	<u>334,297</u>
Total Capital Assets, being depreciated	<u>5,117,740</u>	<u>5,065</u>	<u>(25,625)</u>	<u>5,097,180</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(2,854,328)	(218,217)	0	(3,072,545)
Furniture, Equipment and Machinery	<u>(260,389)</u>	<u>(38,004)</u>	<u>14,145</u>	<u>(284,248)</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)

NOTE 6 - Capital Assets: (Continued)

Total Accumulated Depreciation	(3,114,717)	(256,221)	14,145	(3,356,793)
Total Capital Assets, being depreciated, net	2,003,023	(251,156)	(11,480)	1,740,387
Capital Assets, Net	<u>\$ 2,524,559</u>	<u>\$(249,856)</u>	<u>\$ (17,846)</u>	<u>\$ 2,256,857</u>

Major construction renovation through the Capital Fund Program costs of \$35,979 are yet to be expended under the current programs. HUD has approved funding for the above amount. Depreciation expense for the year ended December 31, 2006, was \$256,221.

NOTE 7 - Notes and Mortgages Receivable:

Notes and mortgages receivable in the Gold Street Program consist of one promissory note.

Notes receivable consist of the following:

Noncurrent	<u>\$ 78,768</u>
------------	------------------

NOTE 8 - Accounts Payable:

Accounts payable at December 31, 2006 consist of the following:

Vendors' Accounts Payable	\$ 88,671
Compensated Absences - Current	1,117
Accrued Wages	<u>8,153</u>
Total	<u>\$ 97,941</u>

NOTE 9 - Prior Period Adjustment:

Prior period adjustments consist of the following:

Miscellaneous Correction	<u>\$ 102</u>
--------------------------	---------------

NOTE 10 - Economic Dependency:

The Authority receives approximately 78% of its revenues from the U.S. Department of Housing and Urban Development (HUD). If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 11 - Pension Plan:

Plan Description

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Authority the power to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

The Authority's contributions were calculated using the base salary amount of \$210,356. During the year ended December 31, 2006, the Authority's required and actual contributions amounted to \$9,457, which was 5.25% of its current-year covered payroll in the amount of \$207,756. Contributions for 2005 were \$8,993. Contributions for 2004 were \$6,128.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employee's Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 12 - Commitments and Contingencies:

Litigation: At December 31, 2006, the Authority was not involved in any threatened litigation.

Examinations: The Authority is subject to possible examinations made by federal and state authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the Authority in the current and prior years. There was one examination concerning the year ended December 31, 2006. The Indiana Board of Accounts identified fraudulent transactions. The audit identified over \$566,000 in questioned costs from the period January 1, 1999 to June 30, 2006.

Grant Disallowances: Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amounts, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

Construction Projects: There are certain major construction projects in progress at December 31, 2006. These include modernizing rental units at the project sites. These projects are being funded by HUD. Funds are requested periodically as the cost is incurred. These costs will be paid by grants committed to the Authority by HUD.

NOTE 13 - Subsequent events:

In June 2006, the former Executive Director wrote a letter to the Kendallville Housing Authority Board where she admitted to irregularities in the financial records. She pled guilty to the charge of Theft, Class C Felony and agreed to serve a prison sentence of 8 years in the Indiana Department of Corrections.

SUPPLEMENTAL FINANCIAL INFORMATION

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM NET ASSETS

DECEMBER 31, 2006

	Annual Contributions Contracts		
	C-2000	IN036	C-2000
	Low Income Public Housing	Section 8 Housing Choice Vouchers	Capital Fund
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 17,204	\$ 24,741	\$ 0
Restricted cash and cash equivalents	26,638	0	0
Accounts receivable, net	77,629	0	0
Interprogram	113,541	79,753	0
Prepaid expenses	5,097	0	0
Inventory	6,918	0	0
Total Current Assets	247,027	104,494	0
<u>Capital Assets</u>			
Land and other nondepreciable assets	388,549	0	0
Depreciable capital assets, net	1,740,387	0	0
Total Capital Assets	2,128,936	0	0
<u>Noncurrent Assets</u>			
Notes receivable	0	0	0
Total Noncurrent Assets	0	0	0
Total Assets	2,375,963	104,494	0
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Accounts payable	18,889	0	0
Interprogram	87,532	118,438	0
Payable from restricted cash and and cash equivalents:			
Tenants security deposits	26,638	0	0
Total Current Liabilities	133,059	118,438	0
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,128,936	0	0
Unrestricted	113,968	(13,944)	0
Total Net Assets	\$ 2,242,904	\$ (13,944)	\$ 0

IN036NC0010

Section 8 New Construction	Business Activities	Housing Development Corporation	Interfund Elimination	Total
\$ 205,045	\$ 0	\$ 0	\$ 0	\$ 246,990
0	0	0	0	26,638
49,223	0	0	0	126,852
118,438	0	84,523	(396,255)	0
0	0	0	0	5,097
0	0	0	0	6,918
<u>372,706</u>	<u>0</u>	<u>84,523</u>	<u>(396,255)</u>	<u>412,495</u>
0	0	127,921	0	516,470
0	0	0	0	1,740,387
<u>0</u>	<u>0</u>	<u>127,921</u>	<u>0</u>	<u>2,256,857</u>
0	78,768	0	0	78,768
<u>0</u>	<u>78,768</u>	<u>0</u>	<u>0</u>	<u>78,768</u>
<u>372,706</u>	<u>78,768</u>	<u>212,444</u>	<u>(396,255)</u>	<u>2,748,120</u>
79,052	0	0	0	97,941
188,871	1,414	0	(396,255)	0
0	0	0	0	26,638
<u>267,923</u>	<u>1,414</u>	<u>0</u>	<u>(396,255)</u>	<u>124,579</u>
0	0	127,921	0	2,256,857
104,783	77,354	84,523	0	366,684
<u>\$ 104,783</u>	<u>\$ 77,354</u>	<u>\$ 212,444</u>	<u>\$ 0</u>	<u>\$ 2,623,541</u>

KENDALLVILLE HOUSING AUTHORITY
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Annual Contributions Contract		
	C-2000	IN036	C-2000
	Low	Section 8	
	Income	Housing	
	Public	Choice	Capital
	Housing	Vouchers	Fund
<u>OPERATING REVENUES</u>			
Rental income	\$ 317,667	\$ 0	\$ 0
Other income	26,516	98	0
TOTAL OPERATING REVENUE	344,183	98	0
<u>OPERATING EXPENSES</u>			
Administrative	193,818	6,427	0
Tenant services	11,054	0	0
Utilities	94,625	0	0
Ordinary maintenance and operation	228,570	0	0
General expense	39,127	0	0
Housing assistance payments	0	52,017	0
Depreciation expense	256,221	0	0
TOTAL OPERATING EXPENSES	823,415	58,444	0
OPERATING INCOME (LOSS)	(479,232)	(58,346)	0
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Federal operating grants	119,642	59,902	14,722
Interest income	(845)	48	0
Gain on disposal of capital assets	953	0	0
Interest expense	(293)	0	0
TOTAL NONOPERATING REVENUES	119,457	59,950	14,722
Net income before capital contributions	(359,775)	1,604	14,722
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET ASSETS	(359,775)	1,604	14,722
TOTAL NET ASSETS - BEGINNING OF YEAR, as originally stated	2,582,891	(15,548)	5,066
Prior period adjustments	19,788	0	(19,788)
TOTAL NET ASSETS - BEGINNING OF YEAR, as restated	2,602,679	(15,548)	(14,722)
TOTAL NET ASSETS - END OF YEAR	\$ 2,242,904	\$ (13,944)	\$ 0

ts

IN036NC0010

<u>Section</u> 8 New <u>Construction</u>	<u>Business</u> <u>Activities</u>	<u>Housing</u> <u>Development</u> <u>Corporation</u>	<u>Total</u>
\$ 0	\$ 0	\$ 0	\$ 317,667
0	0	0	26,614
<u>0</u>	<u>0</u>	<u>0</u>	<u>344,281</u>
58,140	0	0	258,385
0	0	0	11,054
0	0	0	94,625
95	0	0	228,665
196	0	0	39,323
980,822	0	0	1,032,839
0	0	0	256,221
<u>1,039,253</u>	<u>0</u>	<u>0</u>	<u>1,921,112</u>
<u>(1,039,253)</u>	<u>0</u>	<u>0</u>	<u>(1,576,831)</u>
1,018,554	0	0	1,212,820
9,727	0	0	8,930
0	0	0	953
0	0	0	(293)
<u>1,028,281</u>	<u>0</u>	<u>0</u>	<u>1,222,410</u>
<u>(10,972)</u>	<u>0</u>	<u>0</u>	<u>(354,421)</u>
0	0	0	0
<u>(10,972)</u>	<u>0</u>	<u>0</u>	<u>(354,421)</u>
115,653	77,354	212,444	2,977,860
102	0	0	102
<u>115,755</u>	<u>77,354</u>	<u>212,444</u>	<u>2,977,962</u>
<u>\$ 104,783</u>	<u>\$ 77,354</u>	<u>\$ 212,444</u>	<u>\$ 2,623,541</u>

512.1	Unrestricted Net Assets	\$77,354	\$104,783	\$113,968	\$-13,944	\$0	\$84,523	\$366,684
513	Total Equity/Net Assets	\$77,354	\$104,783	\$2,242,904	\$-13,944	\$0	\$212,444	\$2,623,541
600	Total Liabilities and Equity/Net Assets	\$78,768	\$372,706	\$2,375,963	\$104,494	\$0	\$212,444	\$3,144,375
703	Net Tenant Rental Revenue	\$0	\$0	\$313,618	\$0	\$0	\$0	\$313,618
704	Tenant Revenue - Other	\$0	\$0	\$4,049	\$0	\$0	\$0	\$4,049
705	Total Tenant Revenue	\$0	\$0	\$317,667	\$0	\$0	\$0	\$317,667
706	HUD PHA Operating Grants	\$0	\$1,018,554	\$119,642	\$59,902	\$14,722	\$0	\$1,212,820
711	Investment Income - Unrestricted	\$0	\$9,727	\$-845	\$48	\$0	\$0	\$8,930
715	Other Revenue	\$0	\$0	\$26,516	\$98	\$0	\$0	\$26,614
716	Gain/Loss on Sale of Fixed Assets	\$0	\$0	\$953	\$0	\$0	\$0	\$953
700	Total Revenue	\$0	\$1,028,281	\$463,933	\$60,048	\$14,722	\$0	\$1,566,984
911	Administrative Salaries	\$0	\$17,132	\$68,526	\$0	\$0	\$0	\$85,658
913	Outside Management Fees	\$0	\$33	\$1,705	\$0	\$0	\$0	\$1,738
914	Compensated Absences	\$0	\$0	\$-1,181	\$0	\$0	\$0	\$-1,181
915	Employee Benefit Contributions - Administrative	\$0	\$4,209	\$20,886	\$0	\$0	\$0	\$25,095
916	Other Operating - Administrative	\$0	\$36,766	\$103,882	\$6,427	\$0	\$0	\$147,075
921	Tenant Services - Salaries	\$0	\$0	\$2,600	\$0	\$0	\$0	\$2,600
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$204	\$0	\$0	\$0	\$204
924	Tenant Services - Other	\$0	\$0	\$8,250	\$0	\$0	\$0	\$8,250
931	Water	\$0	\$0	\$20,175	\$0	\$0	\$0	\$20,175
932	Electricity	\$0	\$0	\$45,367	\$0	\$0	\$0	\$45,367
933	Gas	\$0	\$0	\$29,083	\$0	\$0	\$0	\$29,083
941	Ordinary Maintenance and Operations - Labor	\$0	\$0	\$122,098	\$0	\$0	\$0	\$122,098
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$83	\$28,051	\$0	\$0	\$0	\$28,134
943	Ordinary Maintenance and Operations - Contract Costs	\$0	\$12	\$37,642	\$0	\$0	\$0	\$37,654
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$0	\$34,077	\$0	\$0	\$0	\$34,077
961	Insurance Premiums	\$0	\$196	\$39,117	\$0	\$0	\$0	\$39,313
962	Other General Expenses	\$0	\$0	\$10	\$0	\$0	\$0	\$10
967	Interest Expense	\$0	\$0	\$293	\$0	\$0	\$0	\$293
969	Total Operating Expenses	\$0	\$58,431	\$560,785	\$6,427	\$0	\$0	\$625,643
970	Excess Operating Revenue over Operating Expenses	\$0	\$989,850	\$-96,852	\$53,621	\$14,722	\$0	\$941,341
971	Extraordinary Maintenance	\$0	\$0	\$6,702	\$0	\$0	\$0	\$6,702
973	Housing Assistance Payments	\$0	\$980,822	\$0	\$52,017	\$0	\$0	\$1,032,839
974	Depreciation Expense	\$0	\$0	\$256,221	\$0	\$0	\$0	\$256,221
900	Total Expenses	\$0	\$1,039,253	\$823,708	\$58,444	\$0	\$0	\$1,921,405
1001	Operating Transfers In	\$0	\$0	\$14,722	\$0	\$0	\$0	\$14,722
1002	Operating Transfers Out	\$0	\$0	\$0	\$0	\$-14,722	\$0	\$-14,722
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$14,722	\$0	\$-14,722	\$0	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$0	\$-10,972	\$-345,053	\$1,604	\$0	\$0	\$-354,421
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$77,354	\$115,653	\$2,582,891	\$-15,548	\$5,066	\$212,444	\$2,977,860

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>ANNUAL CONTRIBUTION CONTRACT</u>	<u>PROGRAM AND ASSISTANCE TYPE</u>	<u>CFDA NUMBER</u>	<u>AWARD</u>	<u>EXPENDITURES</u>
	<u>U. S. DEPARTMENT OF HUD</u>			
IN-036	Section 8 New Construction	14.182	\$ 1,018,554	\$ 1,018,554
IN-036	Low Rent Public Housing	14.850	119,642	119,642
IN-036	Housing Choice Vouchers	14.871	59,902	59,902
IN-036	Capital Fund Program	14.872	<u>14,722</u>	<u>14,722</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,212,820</u>	<u>\$ 1,212,820</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1 - The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting as described in Note A.

OTHER REPORTS

Jean Sidels

Certified Public Accountant
8518 S Kays Chapel Rd
Fredericksburg, IN 47120

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 Kendallville
240 Angling Road
Kendallville, Indiana 46755

I was engaged to audit the financial statements of the Housing Authority of the City of Kendallville, as of and for the year ended December 31, 2006 and have issued my report thereon dated November 30, 2007. My report disclaimed an opinion on the financial statements due to the lack of sufficient audit evidence in the form of management representations and other supporting information.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entities internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose as described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01.

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

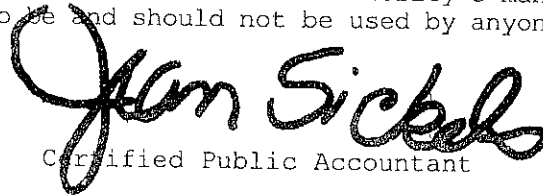
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Findings number 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01 are considered material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provision 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances on 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. The finding reference numbers are 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01.

I noted certain matters that I reported to the management of the Housing Authority of the City of Kendallville in a separate letter dated November 30, 2007.

This report is intended solely for the information and use of the Authority's management, the U.S. Department of HUD, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountant

Fredericksburg, IN
November 30, 2007

Jean Sidels

Certified Public Accountant

8518 S Kays Chapel Rd
Fredericksburg, IN 47120

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Board of Commissioners
Housing Authority of the City of Kendallville
240 Angling Road
Kendallville, Indiana 46755

Compliance

I was engaged to audit the compliance of Housing Authority of the City of Kendallville 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 of the City of Kendallville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of the City of Kendallville's management.

Authority management was unable to provide me with certain written representations and other information supporting the major federal award programs.

Because management did not provide me with written representations, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

However, as described in items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01 in the accompanying schedule of findings and questioned costs, in the conduct of my work, I noted that the Housing Authority of the City of Kendallville did not comply with requirements regarding activities allowed or unallowed, special tests and provisions, procurement, eligibility, and cash management that are applicable to its Low Income Public Housing and Capital Fund programs. Additionally, I have identified and reported in the Schedule of Findings and Questioned Costs findings of noncompliance related to a non-major federal program that is required by Circular A-133 to be reported as audit findings.

Internal Control Over Compliance

The management of the Housing Authority of the City of Kendallville 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 the Housing Authority of the City of Kendallville'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 our auditing procedures for the purpose of attempting to express an 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 Authority's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and others that I consider to be material weaknesses.

A *control deficiency* in an authority'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 authority'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 authority's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01 to be significant deficiencies.

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 authority's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08 and 2006-01 to be material weaknesses.

The Housing Authority of the City of Kendallville's responses to the finding identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the Housing Authority of the City of Kendallville's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Authority's management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountant

Fredericksburg, IN
November 30, 2007

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Disclaimer

Internal control over financial reporting:
~ Material weakness(es) identified? yes X no
~ Reportable conditions identified that are
not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements
noted? yes X no

FEDERAL AWARDS

Internal control over major programs:
~ Material weakness(es) identified? X yes no
~ Reportable conditions identified that are
not considered to be material weakness(es)? X yes none reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Low Income Public Housing
14.182	Section 8 New Construction

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

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08
and 2006-01 are Financial Statement Findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08
and 2006-01 are Federal Award Findings.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

2005-01

CONDITION: AUDIT CONDUCTED LATE

The audit for the December 31, 2005 year end did not begin until November of 2007

CURRENT
CONDITION: The audit for December 31, 2006 did not begin until November of 2007.

CFDA #: 14.182, 14.850

CRITERIA: OMB Circular A-133 requires the audit to be conducted within 9 months of the fiscal year end.

CAUSE/EFFECT: The Authority has undergone a change in management and has been through an Indiana Board of Accounts review.

RECOMMENDATION: Ensure that the audit is done in a timely manner in the future.

REPLY: This finding has already been corrected for future Audits. The 2005/2006 Audits are late and cannot be corrected. The Housing Authority has a contract in place for the 2007 Audit that will be conducted within the required 9 month period.

This finding continues.

2005-02

CONDITION: CASH DISBURSEMENTS

During the review of cash disbursements the following discrepancies were noted: The Authority did not properly support the expenditures. The Authority expended amounts for unallowable costs. The Authority did not have a sufficient internal control system in place to ensure that all expenses are allowable and necessary for the Housing Authority operations.

CURRENT
CONDITION: There was no change.

CFDA #: 14.182, 14.850, 14.872

CRITERIA: HUD rules and regulations require adequate supporting documentation for expenditures. OMB Circular A-87 and A-122 require expenditures for allowable costs.

QUESTIONED
COSTS: \$93,643 12/31/05
\$62,330 12/31/06

CAUSE/EFFECT: The Authority did not have sufficient internal control procedures in place to ensure that all expenditures were legitimate and adequately supported.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

RECOMMENDATION: The Authority should develop a system of internal control that is sufficient to ensure that all expenditures are allowable costs and adequately supported.

REPLY: The Housing Authority has created a Finance Committee to more closely oversee all Finances. We are also creating an internal control policy to regulate all handling of funds.

This finding continues.

2005-03

CONDITION: PAYROLL

In a sample of 25 payroll checks the following was noted: The Authority paid salaries that were not on the schedule of all positions and salaries. The Authority did not have segregation of duties for inputting, processing, issuing and signing payroll checks. The Authority did not adequately monitor the budgeted salaries as compared to actual.

CURRENT
CONDITION: There was no change.

CFDA #: 14.182, 14.850

CRITERIA: HUD rules and regulations required adequate accounting and record keeping for salaries and wages. A system of internal control including segregation of duties is also required.

QUESTIONED
COSTS: \$10,164 12/31/05

CAUSE/EFFECT: The Authority did not have an adequate system of internal controls for payroll.

RECOMMENDATION: The Authority should put internal control procedures into place that are strong enough to ensure that salaries are paid in accordance with a board approved schedule of all positions and salaries. The internal control procedures should include a segregation of duties that is sufficient to ensure the employees are paid for hours worked.

REPLY: The Housing Authority is creating an Internal Control Policy. We have also established a Finance Committee within the Board of Commissioners to more closely watch all aspects of the Housing Authority Finances. The Internal Control Policy will ensure that salaries are paid based on a Board approved schedule of positions and salaries.

This finding continues.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

2005-04

CONDITION:

POLICIES AND PROCEDURES

From a review of the minutes from January 2005 until December 2006, it was noted that there have been no updates to the Authority policies and procedures for the past several years. The existing policies and procedures for cash disbursements and payroll were not adequate. The admissions and occupancy policies were not updated to reflect changes in the federal rules and regulations. The Authority does not have a fraud policy.

CURRENT
CONDITION:

There was no change.

CFDA #:

14.182, 14.850

CRITERIA:

HUD rules and regulations require the Authority to maintain current policies and procedures that are in accordance with relevant rules and regulations.

CAUSE/EFFECT:

The Authority did not review and update policies and procedures.

RECOMMENDATION:

The Authority should review and update all the policies. The Authority should ensure that policies such as the cash disbursement, payroll and fraud policies are adequate for this Housing Authority operation.

REPLY:

Policies and Procedures - The current Board of Commissioners is reviewing all Policies of the Housing Authority. We are currently finishing up the Personnel Policy and will continue on updating and reviewing all policies over the next few months. The Board is establishing committees to review certain policies.

This finding continues.

2005-05

CONDITION:

JOURNAL VOUCHERS

In the sample of Journal Vouchers, it was noted that the Authority does not have a system of internal to review and approve the Vouchers and that the Vouchers lack proper supporting documentation.

CURRENT
CONDITION:

There was no change.

CFDA #:

14.182, 14.850

CRITERIA:

HUD rules and regulations require internal controls over Journal Vouchers.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

CAUSE/EFFECT: The Authority did not have a system in place during the year under audit to review and approve journal vouchers.

RECOMMENDATION: Review and approve Journal Vouchers and ensure that they are properly supported.

REPLY: The Executive Director will begin providing monthly Journal Vouchers to the Board for approval. These vouchers are created by our fee Accountant and the board will review and approve these vouchers ensuring that they are properly supported.

This finding continues.

2005-06

CONDITION:

ACCOUNT BALANCE SUPPORT

The Authority did not maintain proper supporting documentation for the following account balances:

1. Gold Street Notes Receivable.
2. New Construction accounts receivable.
3. New Construction accounts payable.
4. Tax credit project equity account.
5. Low Rent security deposits.
6. Low Rent miscellaneous accounts receivable.
7. Low Rent inventory list.
8. Low Rent accounts payable list.
9. Low Rent compensated absences.
10. Payments in lieu of taxes (PILOT).

CURRENT
CONDITION:

There was no change.

CFDA #: 14.182, 14.850

CRITERIA: HUD rules and regulations require supporting documentation for account balances.

QUESTIONED
COSTS:

1. Gold Street Notes Receivable	\$ 78,768
2. New Construction accounts receivable	\$ 6,293
3. Low Rent Miscellaneous a/r	\$ 55,434
4. Tax credit project a/r	\$ 84,523

CAUSE/EFFECT: The Authority has not been maintaining supporting ledgers that reconcile to the account balances. The Authority has not been analyzing the collectability of the account balances.

RECOMMENDATION: The Authority should set up a supporting ledger for each of the above listed account balances and analyze each account balance to ensure that it is fairly stated on the books.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

REPLY: The Housing Authority will review account balances on each of its accounts to ensure that each is fairly stated on our books. We will review these with our fee accountant and considered the possibility of a consolidated ledger for our accounts. The Housing Authority will ensure that supporting documentation is maintained for all accounts. We will also consider writing off fraudulent accountant balances at the same time pursuing collection from those responsible.

This finding continues.

2005-07

CONDITION: COLLATERIALIZATION

The Authority did not have a system of internal control in place to ensure that collateralization was adequate.

CURRENT
CONDITION: There was no change.

CFDA #: 14.182, 14.850

CRITERIA: HUD rules and regulations required bank accounts to be properly collateralized.

CAUSE/EFFECT: The Authority did not have an adequate system of internal controls for tracking collateralization.

RECOMMENDATION: The Authority should put internal control procedures into place that are strong enough to ensure that the bank accounts are adequately collateralized. The Authority should execute current General Depository Agreements (HUD form 51999).

REPLY: The Housing Authority will include in its new Internal Control Policy procedures to ensure that bank accountants are properly and adequately collateralized. This will be done in accordance with HUD requirements. We will also ensure that HUD Form 51999 is executed and completed for all financial accounts.

This finding continues.

2005-08

CONDITION: BUDGET

The Authority did not have a system of internal control in place to ensure that the Authority was under budget. The budgeted expenditures for the low rent program were \$521,110, the actual expenditures were \$617,737. The Authority was over budget by \$96,627 or 19%.

CURRENT
CONDITION: There was insufficient monitoring of the budget during a major portion of the year.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

PRIOR YEAR FINDINGS
(Continued)

CFDA #: 14.850

CRITERIA: HUD rules and regulations required expenditures to be approved and in accordance with the Annual Contributions Contracts.

CAUSE/EFFECT: The Authority did not have an adequate system of internal controls for budget compared to actual.

RECOMMENDATION: The Authority should put internal control procedures into place that are strong enough to ensure that the budget is adequately analyzed. The Authority should utilize the fee accountants reports as opposed to preparing spreadsheets.

REPLY: The Housing Authority will include in its Internal Control Policy a system for reviewing the Annual Budget on a regular basis. This will be done to make adjustments as needed to ensure the Authority does not exceed its Budget for any given year. The Executive Director will provide each Board Member with reports that are provided directly from our Fee Accountants instead of creating a separate spreadsheet.

This finding continues.

CURRENT YEAR FINDINGS

2006-01

CURRENT
CONDITION: INTERNAL CONTROLS OVER FINANCIAL STATEMENTS

The Authority did not have a system in place to ensure the accuracy of the financial statements.

CFDA #: 14.182

CRITERIA: Auditing Standards require a system of internal controls to be in place to ensure the accuracy of the financial statements.

CAUSE/EFFECT: The Authority did not review the financial statements.

RECOMMENDATION: The Authority should develop a system where the financial statements are reviewed on a monthly basis.

REPLY: The Housing Authority is developing an Internal Control Policy. We have also created a Financial Committee within the Board of Directors. Each of these members receives a duplicate copy of all financials directly from our Fee Accountant for review. The Board has also begun reviewing and approving Monthly Journal Vouchers received from our Fee Accountant.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2006

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

2005-01	Audit Conducted Late	Continues
2005-02	Cash Disbursements	Continues
2005-03	Payroll	Continues
2005-04	Policies and Procedures	Continues
2005-05	Journal Vouchers	Continues
2005-06	Account Balance Support	Continues
2005-07	Collateralization	Continues
2005-08	Budget	Continues

FINDINGS FROM HUD REVIEW

The Indianapolis HUD office conducted a compliance review dated September 30, 2007. The review contains 4 findings and 3 observations which remain open at this time.

Jean Sickels

Certified Public Accountant
870 Cinderella Court
Decatur, GA 30033-5812

Telephone No. (404) 297-9881
Facsimile No. (404) 299-0653
Mobile No. (404) 307-5903
Mobile No. (404) 210-0394

November 30, 2007

Management and
Board of Commissioners of the
Housing Authority of the City of Kendallville
Kendallville, Indiana

In the conduct of my work over the financial statements of the Housing Authority of the City of Kendallville as of and for the year ended December 31, 2006, I was engaged to consider the Authority's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my work, I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect my report dated November 30, 2007 on the financial statements of the Authority.

I will review the status of the comment during my next audit engagement. I have already discussed the comment and suggestion with Authority personnel, and will be pleased to discuss the comment in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendation. My comments are summarized as follows:

CONDITION: CAPITALIZATION POLICY:

During the performance of the audit, it was noted that the capitalization policy is set at \$100.

RECOMMENDATION:

The Authority should consider amending the capitalization policy to a higher threshold and writing off the assets below the new threshold amount.

I wish to thank the Executive Director and the staff of the Authority for their support and assistance during my audit.

This report is intended solely for the information and use of the Board of Commissioners, Management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Jean Sickels
Certified Public Accountant