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May 15, 2009

Board of Commissioners  
Kendallville Housing Authority  
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, 2007 to December 31, 2007. 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 Kendallville Housing Authority, as of December 31, 2007, 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.

We call your attention to the findings in the report. Pages 26 and 27 contain the status of nine prior audit findings. Pages 28 through 31 contain five current audit findings. The management letter contains three comments.

STATE BOARD OF ACCOUNTS

# KENDALLVILLE HOUSING AUTHORITY

AUDITED FINANCIAL STATEMENTS

KENDALLVILLE, INDIANA  
DECEMBER 31, 2007

*Jean Sickels*

Certified Public Accountant

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HOUSING AUTHORITY  
OF THE CITY OF KENDALLVILLE

KENDALLVILLE, INDIANA  
DECEMBER 31, 2007

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# 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 have audited the financial statements of the Housing Authority of the City of Kendallville ("the Authority") as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 Authority as of December 31, 2007, and the changes in financial position and its cash flows for the year indicated above, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 25, 2008, on my consideration of the Authority's 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, as detailed in the table of contents in this Report, is not a required part of the financial statements but is supplementary information, required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires made 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 of the City of Kendallville. 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. The supplemental information as listed in the table of contents, including the Financial Data Schedule is presented for purposes of additional analysis, and is not a required part of the financial statements. Such supplementary 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.

  
Certified Public Accountant

Fredericksburg, IN  
September 25, 2007

**KENDALLVILLE HOUSING AUTHORITY**  
**Kendallville, Indiana**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDING DECEMBER 31, 2007**

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, 2007. 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, 2007 by \$2,374,751 (Net Assets).
- The PHA's investment in Capital Assets, net of related debt as of December 31, 2007 was \$1,895,023.
- The PHA's total revenue for the fiscal year end December 31, 2007 was \$1,127,694.
- The PHA's total expenses for the fiscal year end December 31, 2007 were \$1,376,520. Therefore, the PHA's total combined expenses exceeded its total combined revenue by \$248,826.

**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.
- *Statement of Cash Flows* - reports cash inflows and outflows for the Housing Authority's fiscal year.

**ANALYSIS OF FINANCIAL STATEMENTS:**

**STATEMENT OF NET ASSETS**

	<u>2007</u>	<u>2006</u>	<u>INCREASE (DECREASE)</u>
Cash and investments	\$ 438,145	\$ 273,628	\$ 164,517
Other current assets	56,981	217,635	(160,654)
Capital assets	1,895,023	2,256,857	(361,834)
Non-current assets	<u>40,366</u>	<u>-</u>	<u>40,366</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,430,515</u></b>	<b><u>\$ 2,748,120</u></b>	<b><u>\$ (317,605)</u></b>
Current liabilities	<u>\$ 55,800</u>	<u>\$ 124,579</u>	<u>\$ (68,779)</u>
<b>TOTAL LIABILITIES</b>	<b><u>55,800</u></b>	<b><u>124,579</u></b>	<b><u>(68,779)</u></b>
Invested in capital assets	1,895,023	2,256,857	\$ (361,834)
Restricted assets	20,730	-	20,730
Unrestricted assets	<u>458,962</u>	<u>366,684</u>	<u>92,278</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 2,374,715</u></b>	<b><u>\$ 2,623,541</u></b>	<b><u>\$ (248,826)</u></b>

**KENDALLVILLE HOUSING AUTHORITY**  
**Kendallville, Indiana**  
**MANAGEMENT DISCUSSION AND ANALYSIS - Continued**  
**FISCAL YEAR ENDING DECEMBER 31, 2007**

**ANALYSIS OF FINANCIAL STATEMENTS – Continued:**

The increase in cash is due to receiving proceeds from an insurance policy.

The decrease in other current assets is due to setting up an allowance for the receivables that the Housing Authority is expecting not to collect.

The decrease in capital assets is due to disposing of assets on the KHFC books and depreciation being recorded for the year.

The increase in non-current assets is due to recording the interest of ownership in a tax credit project.

The decrease in current liabilities is due to a decrease in accounts payable in the New Construction program.

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

	YEAR ENDING DECEMBER 31,		INCREASE (DECREASE)
	<u>2007</u>	<u>2006</u>	
<b>REVENUE</b>			
Tenant revenue	\$ 343,095	\$ 317,667	\$ 25,428
HUD operating and capital grants	752,855	1,212,820	(459,965)
Interest	13,977	8,930	5,047
Gain/Loss on sale of capital assets	(127,921)	953	(128,874)
Other revenue	<u>145,688</u>	<u>26,614</u>	<u>119,074</u>
TOTAL REVENUE	<u>\$ 1,127,694</u>	<u>\$ 1,566,984</u>	<u>\$ (439,290)</u>
<b>EXPENSES</b>			
Administrative expenses	\$ 175,813	\$ 258,385	\$ (82,572)
Tenant services	6,566	11,054	(4,488)
Utilities	98,661	94,625	4,036
Ordinary maintenance	145,173	221,963	(76,790)
General expenses	370,377	39,616	330,761
Housing assistance payments	580,827	1,032,839	(452,012)
Extraordinary maintenance	3,305	6,702	(3,397)
Depreciation	245,200	256,221	(11,021)
Prior Period Adjustment	<u>(249,402)</u>	<u>(102)</u>	<u>(249,300)</u>
TOTAL EXPENSES	<u>\$ 1,376,520</u>	<u>\$ 1,921,303</u>	<u>\$ (544,783)</u>
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<u>\$ (248,826)</u>	<u>\$ (354,319)</u>	

The increase in tenant revenue is due to an increase in rental charges

The decrease in HUD operating and capital grants is due to the New Construction being completed in June. There was an increase in the amount of Capital Funds money drawn down for the year.

**KENDALLVILLE HOUSING AUTHORITY**  
**Kendallville, Indiana**  
MANAGEMENT DISCUSSION AND ANALYSIS - Continued  
FISCAL YEAR ENDING DECEMBER 31, 2007

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

The increase in other revenue is due to the commissioners reimbursing the PHA for ineligible expenses and for State Farm Insurance paying out for fidelity bond coverage. This covers the fraud committed by the executive director. This increase is also due to recording the interest of ownership in a tax credit project.

The decrease in gain/loss on sale of capital assets is due to writing of all fixed assets on KHFC program books.

The decrease in administrative expenses is due to a decrease in legal expenses, staff training, travel and other administrative expenses for the year.

The increase in tenant services is due to an increase in recreation, publication and other costs.

The decrease in ordinary maintenance is due to a change in staffing in the maintenance department. There was also a decrease in materials and contract costs for the year.

The increase in general expenses is due to setting up an allowance for doubtful accounts.

The decrease in the housing assistance payment is due to the New Construction being completed in June.

The extraordinary maintenance was payments for flooring.

**SIGNIFICANT TRANSACTIONS**

**BUDGETARY HIGHLIGHTS**

**Low-Rent Public Housing (Operations Only)**

The Board-approved budget anticipated an operating income of \$91,846. Actual result of operation was an operating income before depreciation of \$88,437 a negative budget variance of approximately \$3,409.

**CAPITAL ASSET ACTIVITY DURING THE YEAR**

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

- Low Rent Program
  - 9 Washers and Dryers - \$11,286

There were 9 washers and dryers disposed of totaling \$7,596 during the year. All of the assets that were on the KHFC books totaling \$127,921 were written off during the year.

**FUTURE EVENTS (NEW BUSINESS)**

**None Anticipated**

**KENDALLVILLE HOUSING AUTHORITY**  
**Kendallville, Indiana**  
MANAGEMENT DISCUSSION AND ANALYSIS - Continued  
FISCAL YEAR ENDING DECEMBER 31, 2007

**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, 2007

ASSETS

Current Assets

Cash and cash equivalents	\$ 389,497
Restricted cash and cash equivalents	48,648
Accounts receivable, net	50,880
Prepaid expenses	4,666
Inventory	1,435
<b>Total Current Assets</b>	<u><u>495,126</u></u>

Capital Assets

Land and other nondepreciable assets	388,549
Depreciable capital assets, net	1,506,474
<b>Total Capital Assets</b>	<u><u>1,895,023</u></u>

Noncurrent Assets

Investments in joint ventures	40,366
<b>Total Noncurrent Assets</b>	<u><u>40,366</u></u>

**Total Assets**

2,430,515

LIABILITIES

Current liabilities

Accounts payable	19,831
Deferred revenue	8,051
Payable from restricted cash and cash equivalents:	
Tenants security deposits	27,918
<b>Total Current Liabilities</b>	<u><u>55,800</u></u>

Net Assets

Invested in capital assets	1,895,023
Restricted	20,730
Unrestricted	458,962
<b>Total Net Assets</b>	<u><u>\$ 2,374,715</u></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, 2007

OPERATING REVENUES

Rental income	\$ 343,095
Other income	145,688

<b>TOTAL OPERATING REVENUE</b>	<b>488,783</b>
--------------------------------	----------------

OPERATING EXPENSES

Administrative	175,813
Tenant services	6,566
Utilities	98,661
Ordinary maintenance and operation	148,478
General expense	370,377
Housing assistance payments	580,827
Depreciation expense	245,200

<b>TOTAL OPERATING EXPENSES</b>	<b>1,625,922</b>
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OPERATING INCOME (LOSS)	(1,137,139)
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NONOPERATING REVENUES (EXPENSES)

Federal operating grants	741,569
Interest income	13,977
Gain on disposal of capital assets	(127,921)

<b>TOTAL NONOPERATING REVENUES</b>	<b>627,625</b>
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Net income before capital contributions	(509,514)
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CAPITAL CONTRIBUTIONS	11,286
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CHANGE IN NET ASSETS	(498,228)
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TOTAL NET ASSETS - BEGINNING OF YEAR, as originally stated	2,623,541
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Prior period adjustments	249,402
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TOTAL NET ASSETS - BEGINNING OF YEAR, as restated	2,872,943
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<b>TOTAL NET ASSETS - END OF YEAR</b>	<b>\$ 2,374,715</b>
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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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and other deposits	\$ 572,806
Payments to vendors	(641,054)
Payments to land lords	(580,827)
Payments to employees	(229,757)
Net Cash Used by Operating Activities	<u>(878,832)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal operating grants received	741,569
Net Cash From Noncapital Financing Activities	<u>741,569</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants received	11,286
Loss on disposal of capital assets	(127,921)
Purchase of capital assets	116,634
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(1)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	13,977
Investment in joint ventures	38,402
Prior period adjustments	249,402
Net Cash From Investing Activities	<u>301,781</u>

Net Increase (Decrease) in Cash and Cash Equivalents	164,517
Cash - Beginning of year	<u>273,628</u>
Cash - End of year	<u>\$ 438,145</u>

Reconciliation of Cash	
Unrestricted	\$ 389,497
Restricted	48,648
	<u>\$ 438,145</u>

Continued

KENDALLVILLE HOUSING AUTHORITY  
Kendallville, Indiana

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Continued)

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

Operating income (loss)	\$ (1,137,139)
Adjustments to reconcile net income to net cash Provided by operating activities:	
Depreciation	245,200
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	75,972
Prepaid expenses	431
Inventory	5,483
Increase (Decrease) in:	
Accounts payable	(76,830)
Deferred revenue	8,051
Net Cash Flows Provided (Used) by Operating Activities	\$ <u>(878,832)</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, 2007

**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, 2007, the Housing Authority had 208 units in management and was administering other programs as listed below:

Management

Low-Income Public Housing	118
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Lower Income Housing Assistance Program

Section 8 New Construction	75
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Section 8 Housing Choice Vouchers	<u>15</u>
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TOTAL SECTION 8	90
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TOTAL ALL PROGRAMS	<u>208</u>
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Other Programs

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, 2007  
(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.

**Restricted:** Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service. The Authority has restricted funds totaling \$20,730 that represents excess HAP grant funding provided by the Department of Housing & Urban Development for the sole purpose of providing assistance payments to eligible individuals through the Housing Choice Voucher Program. This amount represents the total amount of excess Authority to retain these funds for future housing assistance payments. The requirements imposed by HUD represent a legally enforceable requirement upon this program.

**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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

(Continued)

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

**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.

**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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

(Continued)

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

**Capital Assets: (Continued)**

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.

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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

(Continued)

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

**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.

**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, 2007, 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, 2007, the carrying amount of the Authority's deposits was \$438,145. 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 and Section 8 HAP payments.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)

NOTE 2 - Deposits, Cash and Cash Equivalents: (Continued)

Deposits consist of the following:

Checking accounts	\$ 306,973
Certificates of Deposit	<u>131,172</u>
Total	<u>\$ 438,145</u>

NOTE 3 - Accounts Receivable:

Accounts receivables at December 31, 2007 consist of the following:

HUD	\$ 50,243
Former Executive Director, net of allowance of \$335,508	<u>637</u>
See NOTE 14	
Total	<u>\$ 50,880</u>

NOTE 4 - Prepaid Expenses:

Prepaid Expenses at December 31, 2007 consist of the following:

Prepaid insurance and other prepaid assets	<u>\$ 4,666</u>
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NOTE 5 - Inventory:

Inventory at December 31, 2007, consist of the following:

Inventory, net of allowance of \$(0)	<u>\$ 1,435</u>
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NOTE 6 - Capital Assets:

	Beginning Balance 12/31/06	Increases	Decreases	Ending Balance 12/31/07
Capital assets, not being depreciated:				
Land	\$ 515,170	\$ 0	\$(126,621)	\$ 388,549
Construction in Progress	<u>1,300</u>	<u>0</u>	<u>( 1,300)</u>	<u>0</u>
Total Capital Assets, not being depreciated	<u>516,470</u>	<u>0</u>	<u>(127,921)</u>	<u>388,549</u>
Capital Assets, being depreciated:				
Buildings & Improvements	4,762,883	0	0	4,762,883
Furniture, Equipment & Machinery	<u>334,297</u>	<u>3,690</u>	<u>0</u>	<u>337,987</u>
Total Capital Assets, being depreciated	<u>5,097,180</u>	<u>3,690</u>	<u>0</u>	<u>5,100,870</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)

NOTE 6 - Capital Assets: (Continued)

Less Accumulated Depreciation for:				
Buildings & Improvements	( 3,072,545)	(218,217)	0	( 3,072,545)
Furniture, Equipment and Machinery	<u>( 284,248)</u>	<u>( 26,983)</u>	<u>7,597</u>	<u>( 284,248)</u>
Total Accumulated Depreciation	<u>( 3,356,793)</u>	<u>(245,200)</u>	<u>7,597</u>	<u>( 3,594,396)</u>
Total Capital Assets, being depreciated, net	<u>1,740,387</u>	<u>(241,510)</u>	<u>7,597</u>	<u>1,506,474</u>
Capital Assets, Net	<u>\$ 2,256,857</u>	<u>\$ (241,510)</u>	<u>\$ (120,324)</u>	<u>\$ 1,895,023</u>

Major construction renovation through the Capital Fund Program costs of \$86,482 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, 2007, was \$245,200.

NOTE 7 - Investments in Partnerships:

Investments at December 31, 2007 consist of the following:

Partnership Kendallville limited partnership.	<u>\$ 40,366</u>
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The Housing Authority's nonprofit organization Kendallville Affordable Housing, Inc, entered into a limited partnership (Lamplighter II, Limited Partnership) agreement for the purpose of constructing and managing a 24-unit complex of one and two bedroom units. The partnership has received tax credits from the State of Indiana. The Nonprofit organization holds a 1% general partnership interest, with the remaining 99% limited partnership interests held by unrelated investors. The partnership interest is recorded on the equity basis.

NOTE 8 - Accounts Payable:

Accounts payable at December 31, 2007 consist of the following:

Vendors' Accounts Payable	\$ 18,251
Compensated Absences - Current	781
Accrued Wages	<u>799</u>
Total	<u>\$ 19,831</u>

NOTE 9 - Deferred Revenue:

Deferred revenue at December 31, 2007 consist of the following:

Prepaid rent	\$ 21
Prepaid capital fund funds	<u>8,030</u>
Total	<u>\$ 8,051</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

(Continued)

**NOTE 10 - Prior Period Adjustment:**

Prior period adjustments consist of the following:

To set up an accounts receivable that was not on the books \$ 249,402

This is the amount that the former Executive Director owes.

**NOTE 11 - Economic Dependency:**

The Authority receives approximately 67% 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.

**NOTE 12 - 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 \$174,694. During the year ended December 31, 2007, the Authority's required and actual contributions amounted to \$9,047, which was 5.25% of its current-year covered payroll in the amount of \$172,293. Contributions for 2006 were \$9,457. Contributions for 2005 were \$8,993.

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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

(Continued)

NOTE 12 - Pension Plan: (continued)

**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.

NOTE 13 - Commitments and Contingencies:

**Litigation:** At December 31, 2007, 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, 2007. 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. Other than the amounts listed in the paragraph above, 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, 2007. 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 14 - Subsequent events:

In June 2007, 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. The Authority continues to have pending questioned costs due to these irregularities from previous years. The former Executive Director still has an accounts receivable that is recorded net of an allowance of \$335,508 for financial statement reporting purposes.

SUPPLEMENTAL FINANCIAL INFORMATION

KENDALLVILLE HOUSING AUTHORITY  
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM NET ASSETS

DECEMBER 31, 2007

	Annual Contributions Contract		
	C-2000	IN036	C-2000
	Low	Section 8	
	Income	Housing	
	Public	Choice	Capital
	Housing	Vouchers	Fund
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 369,948	\$ 15,385	\$ 0
Restricted cash and cash equivalents	27,918	20,730	0
Accounts receivable, net	637	0	0
Interprogram	24,632	85,899	8,030
Prepaid expenses	4,666	0	0
Inventory	1,435	0	0
<b>Total Current Assets</b>	<b>429,236</b>	<b>122,014</b>	<b>8,030</b>
<b><u>Capital Assets</u></b>			
Land and other nondepreciable assets	388,549	0	0
Depreciable capital assets, net	1,495,658	0	10,816
<b>Total Capital Assets</b>	<b>1,884,207</b>	<b>0</b>	<b>10,816</b>
<b><u>Noncurrent Assets</u></b>			
Investment in joint ventures	0	0	0
<b>Total Noncurrent Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>2,313,443</b>	<b>122,014</b>	<b>18,846</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current liabilities</u></b>			
Accounts payable	19,831	0	0
Interprogram	93,929	115,146	0
Deferred revenue	21	0	8,030
Payable from restricted cash and and cash equivalents:			
Tenants security deposits	27,918	0	0
<b>Total Current Liabilities</b>	<b>141,699</b>	<b>115,146</b>	<b>8,030</b>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	1,884,207	0	10,816
Restricted	0	20,730	0
Unrestricted	287,537	(13,862)	0
<b>Total Net Assets</b>	<b>\$ 2,171,744</b>	<b>\$ 6,868</b>	<b>\$ 10,816</b>

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IN036NC0010

Section 8 New Construction	Business Activities	Housing Development Corporation	Interfund Elimination	Total
\$ 4,164	\$ 0	\$ 0	\$ 0	\$ 389,497
0	0	0	0	48,648
50,243	0	0	0	50,880
115,147	0	0	(233,708)	0
0	0	0	0	4,666
0	0	0	0	1,435
<u>169,554</u>	<u>0</u>	<u>0</u>	<u>(233,708)</u>	<u>495,126</u>
0	0	0	0	388,549
0	0	0	0	1,506,474
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,895,023</u>
0	0	40,366	0	40,366
0	0	40,366	0	40,366
<u>169,554</u>	<u>0</u>	<u>40,366</u>	<u>(233,708)</u>	<u>2,430,515</u>
0	0	0	0	19,831
24,633	0	0	(233,708)	0
0	0	0	0	8,051
0	0	0	0	27,918
<u>24,633</u>	<u>0</u>	<u>0</u>	<u>(233,708)</u>	<u>55,800</u>
0	0	0	0	1,895,023
0	0	0	0	20,730
144,921	0	40,366	0	458,962
<u>\$ 144,921</u>	<u>\$ 0</u>	<u>\$ 40,366</u>	<u>\$ 0</u>	<u>\$ 2,374,715</u>

KENDALLVILLE HOUSING AUTHORITY  
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Annual Contributions Contract		
	C-2000	IN036	C-2000
	Low	Section 8	
	Income	Housing	
	Public	Choice	Capital
	Housing	Vouchers	Fund
<b><u>OPERATING REVENUES</u></b>			
Rental income	\$ 343,095	\$ 0	\$ 0
Other income	105,322	0	0
<b>TOTAL OPERATING REVENUE</b>	<b>448,417</b>	<b>0</b>	<b>0</b>
		62,930	27,949
<b><u>OPERATING EXPENSES</u></b>			
Administrative	144,692	5,000	13,143
Tenant services	6,566	0	0
Utilities	98,661	0	0
Ordinary maintenance and operation	148,087	0	0
General expense	363,640	0	0
Housing assistance payments	0	37,118	0
Depreciation expense	244,730	0	470
<b>TOTAL OPERATING EXPENSES</b>	<b>1,006,376</b>	<b>42,118</b>	<b>13,613</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(557,959)</b>	<b>(42,118)</b>	<b>(13,613)</b>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>			
Federal operating grants	138,055	62,830	16,663
Interest income	10,689	100	0
Gain on disposal of capital assets	0	0	0
Interest expense	0	0	0
<b>TOTAL NONOPERATING REVENUES</b>	<b>148,744</b>	<b>62,930</b>	<b>16,663</b>
<b>Net income before capital contributions</b>	<b>(409,215)</b>	<b>20,812</b>	<b>3,050</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>0</b>	<b>0</b>	<b>11,286</b>
<b>CHANGE IN NET ASSETS</b>	<b>(409,215)</b>	<b>20,812</b>	<b>14,336</b>
<b>TOTAL NET ASSETS - BEGINNING OF YEAR,</b> as originally stated	2,242,904	(13,944)	0
Prior period adjustments	338,055	0	(3,520)
<b>TOTAL NET ASSETS - BEGINNING OF YEAR,</b> as restated	<b>2,580,959</b>	<b>(13,944)</b>	<b>(3,520)</b>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<b>\$ 2,171,744</b>	<b>\$ 6,868</b>	<b>\$ 10,816</b>

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IN036NC0010

Section 8 New Construction	Business Activities	Housing Development Corporation	Total
\$ 0	\$ 0	\$ 0	\$ 343,095
0	0	40,366	145,688
<u>0</u>	<u>0</u>	<u>40,366</u>	<u>488,783</u>
12,978	0	0	175,813
0	0	0	6,566
0	0	0	98,661
391	0	0	148,478
6,737	0	0	370,377
543,709	0	0	580,827
0	0	0	245,200
<u>563,815</u>	<u>0</u>	<u>0</u>	<u>1,625,922</u>
<u>(563,815)</u>	<u>0</u>	<u>40,366</u>	<u>(1,137,139)</u>
524,021	0	0	741,569
3,188	0	0	13,977
0	0	(127,921)	(127,921)
0	0	0	0
<u>527,209</u>	<u>0</u>	<u>(127,921)</u>	<u>627,625</u>
<u>(36,606)</u>	<u>0</u>	<u>(87,555)</u>	<u>(509,514)</u>
0	0	0	11,286
<u>(36,606)</u>	<u>0</u>	<u>(87,555)</u>	<u>(498,228)</u>
104,783	77,354	212,444	2,623,541
<u>76,744</u>	<u>(77,354)</u>	<u>(84,523)</u>	<u>249,402</u>
181,527	0	127,921	2,872,943
<u>\$ 144,921</u>	<u>\$ 0</u>	<u>\$ 40,366</u>	<u>\$ 2,374,715</u>

PHA: IN036 FYED: 12/31/2007

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Fund Program	Component Units	Total
111	Cash - Unrestricted	\$0	\$4,164	\$369,948	\$15,385	\$0	\$0	\$389,497
113	Cash - Other Restricted	\$0	\$0	\$0	\$20,730	\$0	\$0	\$20,730
114	Cash - Tenant Security Deposits	\$0	\$0	\$27,918	\$0	\$0	\$0	\$27,918
100	Total Cash	\$0	\$4,164	\$397,866	\$36,115	\$0	\$0	\$438,145
122	Accounts Receivable - HUD Other Projects	\$0	\$50,243	\$0	\$0	\$0	\$0	\$50,243
125	Accounts Receivable - Miscellaneous	\$0	\$6,292	\$329,853	\$0	\$0	\$0	\$336,145
126.2	Allowance for Doubtful Accounts - Other	\$0	\$-6,292	\$-329,216	\$0	\$0	\$0	\$-335,508
120	Total Receivables, net of allowances for doubtful accounts	\$0	\$0,243	\$637	\$0	\$0	\$0	\$50,880
142	Prepaid Expenses and Other Assets	\$0	\$0	\$4,666	\$0	\$0	\$0	\$4,666
143	Inventories	\$0	\$0	\$1,435	\$0	\$0	\$0	\$1,435
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$115,147	\$24,632	\$85,899	\$8,030	\$0	\$233,708
150	Total Current Assets	\$0	\$169,554	\$429,236	\$122,014	\$8,030	\$0	\$728,834
161	Land	\$0	\$0	\$388,549	\$0	\$0	\$0	\$388,549
162	Buildings	\$0	\$0	\$4,762,883	\$0	\$0	\$0	\$4,762,883
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$68,632	\$0	\$0	\$0	\$68,632
164	Furniture, Equipment & Machinery - Administration	\$0	\$13,670	\$239,129	\$5,270	\$11,286	\$0	\$269,355
166	Accumulated Depreciation	\$0	\$-13,670	\$-3,574,986	\$-5,270	\$-470	\$0	\$-3,594,396
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$0	\$1,884,207	\$0	\$10,816	\$0	\$1,895,023
176	Investments in Joint Ventures	\$0	\$0	\$0	\$0	\$0	\$40,366	\$40,366
180	Total Non-Current Assets	\$0	\$0	\$1,884,207	\$0	\$10,816	\$40,366	\$1,935,389
190	Total Assets	\$0	\$169,554	\$2,313,443	\$122,014	\$18,846	\$40,366	\$2,664,223

PHA: IN036 FYED: 12/31/2007

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Fund Program	Component Units	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$18,251	\$0	\$0	\$0	\$18,251
321	Accrued Wage/Payroll Taxes Payable	\$0	\$0	\$781	\$0	\$0	\$0	\$781
322	Accrued Compensated Absences - Current Portion	\$0	\$0	\$27,918	\$0	\$0	\$0	\$27,918
341	Tenant Security Deposits	\$0	\$0	\$21	\$0	\$8,030	\$0	\$8,051
342	Deferred Revenues	\$0	\$24,633	\$93,929	\$115,146	\$0	\$0	\$233,708
347	Interprogram Due To	\$0	\$24,633	\$141,699	\$115,146	\$8,030	\$0	\$289,508
310	Total Current Liabilities	\$0	\$0	\$184,207	\$115,146	\$8,030	\$0	\$299,508
350	Total Noncurrent Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
300	Total Liabilities	\$0	\$24,633	\$141,699	\$115,146	\$8,030	\$0	\$289,508
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$0	\$1,884,207	\$0	\$10,816	\$0	\$1,895,023
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0

511.1	Restricted Net Assets	\$0	\$0	\$0	\$20,730	\$0	\$0	\$20,730
512.1	Unrestricted Net Assets	\$0	\$144,921	\$287,537	\$-13,862	\$0	\$40,366	\$458,962
513	Total Equity/Net Assets	\$0	\$144,921	\$2,171,744	\$6,868	\$10,816	\$40,366	\$2,374,715
600	Total Liabilities and Equity/Net Assets	\$0	\$169,554	\$2,313,443	\$122,014	\$18,846	\$40,366	\$2,664,223

PHA: IN036 FYED: 12/31/2007

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Component Units	Total
703	Net Tenant Rental Revenue	\$0	\$0	\$333,190	\$0	\$0	\$0	\$333,190
704	Tenant Revenue - Other	\$0	\$0	\$9,905	\$0	\$0	\$0	\$9,905
705	Total Tenant Revenue	\$0	\$0	\$343,095	\$0	\$0	\$0	\$343,095
706	HUD PHA Operating Grants	\$0	\$524,021	\$138,055	\$62,830	\$16,663	\$0	\$741,569
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$11,266	\$0	\$11,266
711	Investment Income - Unrestricted	\$0	\$3,188	\$10,689	\$0	\$0	\$0	\$13,877
715	Other Revenue	\$0	\$0	\$106,322	\$0	\$0	\$40,366	\$145,688
716	Gain/Loss on Sale of Fixed Assets	\$0	\$0	\$0	\$0	\$0	\$-127,921	\$-127,921
720	Investment Income - Restricted	\$0	\$0	\$0	\$100	\$0	\$0	\$100
700	Total Revenue	\$0	\$527,209	\$597,161	\$62,930	\$27,949	\$-87,555	\$1,127,694

PHA: IN036 FYED: 12/31/2007

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Component Units	Total
911	Administrative Salaries	\$0	\$7,214	\$65,321	\$3,000	\$8,030	\$0	\$83,565
912	Auditing Fees	\$0	\$0	\$3,500	\$0	\$0	\$0	\$3,500
914	Compensated Absences	\$0	\$0	\$-336	\$0	\$0	\$0	\$-336
915	Employee Benefit Contributions - Administrative	\$0	\$956	\$23,703	\$0	\$0	\$0	\$24,659
916	Other Operating - Administrative	\$0	\$4,908	\$52,504	\$2,000	\$5,113	\$0	\$64,425
921	Tenant Services - Salaries	\$0	\$0	\$2,200	\$0	\$0	\$0	\$2,200
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$213	\$0	\$0	\$0	\$213
924	Tenant Services - Other	\$0	\$0	\$4,153	\$0	\$0	\$0	\$4,153
931	Water	\$0	\$0	\$20,551	\$0	\$0	\$0	\$20,551
932	Electricity	\$0	\$0	\$48,932	\$0	\$0	\$0	\$48,932
933	Gas	\$0	\$0	\$29,178	\$0	\$0	\$0	\$29,178
941	Ordinary Maintenance and Operations - Labor	\$0	\$0	\$90,368	\$0	\$0	\$0	\$90,368
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$391	\$12,800	\$0	\$0	\$0	\$13,191
943	Ordinary Maintenance and Operations - Contract Costs	\$0	\$0	\$10,449	\$0	\$0	\$0	\$10,449
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$0	\$31,165	\$0	\$0	\$0	\$31,165
961	Insurance Premiums	\$0	\$0	\$34,424	\$0	\$0	\$0	\$34,424
962	Other General Expenses	\$0	\$445	\$0	\$0	\$0	\$0	\$445
966	Bad Debt - Other	\$0	\$6,292	\$329,216	\$0	\$0	\$0	\$335,508
969	Total Operating Expenses	\$0	\$20,106	\$758,341	\$5,000	\$13,143	\$0	\$796,590
970	Excess Operating Revenue over Operating Expenses	\$0	\$507,103	\$-161,180	\$57,930	\$-14,806	\$-87,555	\$331,104
971	Extraordinary Maintenance	\$0	\$0	\$3,305	\$0	\$0	\$0	\$3,305
973	Housing Assistance Payments	\$0	\$549,709	\$0	\$37,118	\$0	\$0	\$586,827
974	Depreciation Expense	\$0	\$0	\$244,730	\$0	\$470	\$0	\$245,200
900	Total Expenses	\$0	\$563,815	\$1,005,376	\$42,118	\$13,613	\$0	\$1,625,922
1001	Operating Transfers In	\$0	\$0	\$3,520	\$0	\$0	\$0	\$3,520
1002	Operating Transfers Out	\$0	\$0	\$0	\$0	\$-3,520	\$0	\$-3,520
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$3,520	\$0	\$-3,520	\$0	\$0
	Excess (Deficiency) of Total Revenue Over (Under) Total							

1000	Expenses	\$0	\$-36,606	\$-405,695	\$20,812	\$10,816	\$-87,555	\$-498,228
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PHA: IN036 FYED: 12/31/2007

Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Component Units	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$77,354	\$104,783	\$2,242,904	\$-13,944	\$0	\$212,444	\$2,623,541
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$-77,354	\$76,744	\$334,535	\$0	\$0	\$-84,523	\$249,402
1120	Unit Months Available	0	900	1,416	180	0	0	2,496
1121	Number of Unit Months Leased	0	900	1,412	118	0	0	2,430
1117	Administrative Fee Equity	\$0	\$0	\$0	\$-13,862	\$0	\$0	\$-13,862
1118	Housing Assistance Payments Equity	\$0	\$0	\$0	\$20,730	\$0	\$0	\$20,730

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 Date Submission Created: 09/18/2008

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HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

<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	\$ 524,021	\$ 524,021
IN-036	Low Rent Public Housing	14.850	138,055	138,055
IN-036	Housing Choice Vouchers	14.871	62,830	62,830
IN-036	Capital Fund Program	14.872	<u>137,183</u>	<u>27,949</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 862,089</u>	<u>\$ 752,855</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 Siddels

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 have audited the financial statements of the Housing Authority of the City of Kendallville, as of and for the year ended December 31, 2007 and have issued my report thereon dated September 25, 2008, which included a disclaimer of opinion on Management's Discussion and Analysis. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Authority of the City of Kendallville'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 Housing Authority of the City of Kendallville's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose 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 certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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 2007-01, 2007-03 and 2007-05.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Authority of the City of Kendallville's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to the management of the Housing Authority of the City of Kendallville in a separate letter dated September 25, 2008.

Housing Authority of the City of Kendallville's response to the findings identified in my audit are described in the accompanying schedule of findings and responses. 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 audit committee, 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  
September 25, 2007

# Jean Sickers

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 have audited the compliance of the 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, 2007. The 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. My responsibility is to express an opinion on the Housing Authority of The City of Kendallville'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 the Housing Authority of the City of Kendallville'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 on the Housing Authority of The City of Kendallville's compliance with those requirements.

In my opinion, the Housing Authority of the City of Kendallville 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, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-02 and 2007-04.

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 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 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 Authority's internal control over compliance.

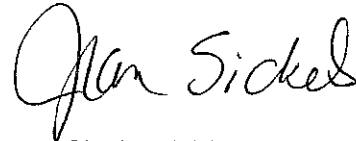
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

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 a 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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-02 and 2007-04 to be a 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 entity's internal control. However, I do not consider the significant deficiencies described above as items 2007-02 and 2007-04 to be material weaknesses.

The Housing Authority of the City of Kendallville's response to the findings identified in my audit is 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 audit committee, 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  
September 25, 2007

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
~ Material weakness(es) identified?        yes   X   no  
~ Significant deficiencies 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?        yes   X   no  
~ Significant deficiencies 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: Unqualified

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?        yes   X   no

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings 2007-01, 2007-03, and 2007-05 are Financial Statement Findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings 2007-02, and 2007-04 are Federal Award Findings.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

PRIOR YEAR FINDINGS  
(Continued)

2005-01

CONDITION:

AUDIT CONDUCTED LATE

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

CURRENT

CONDITION:

The audit for the December 31, 2007 year was completed on time.

This finding is cleared.

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:

The Authority has put new internal control procedures into place.

This finding is cleared.

2005-03

Continued as current Finding 2007-01

CONDITION:

PAYROLL

2005-04

Continued as current finding 2007-02

CONDITION:

POLICIES AND PROCEEDURES

2005-05

Continued as current finding 2007-03

CONDITION:

JOURNAL VOUCHERS

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

PRIOR YEAR FINDINGS  
(Continued)

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:      The Authority has obtained Board approval and written off or resolved all of the account balances.

This finding is cleared.

2005-07      continued as current finding 2007-04  
CONDITION:      COLLATERIALIZATION

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:      The Authority was under budget for the. The Audit committee is monitoring the budget monthly.

This finding is cleared.

2006-01      Continued as 2007-05  
CURRENT  
CONDITION:      INTERNAL CONTROLS OVER FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

CURRENT YEAR FINDINGS

2007-01      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:

In a sample of 19 there were 5 exceptions noted. The Authority has not documented the budgeted payroll amounts. There were discrepancies between the budgets, 941's and amounts reported on the FDS.

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.

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.

MANAGEMENT  
RESPONSE:

The Housing Authority will create an Internal Control Policy. A Finance Committee of two Board members has been established 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.

2007-02      CONDITION:

POLICIES AND PROCEEDURES

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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

CURRENT YEAR FINDINGS  
(Continued)

2007-02 (Continued)

CURRENT  
CONDITION: The Authority is in the process of completing new policies;  
however, this process is not complete.

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.

MANAGEMENT  
RESPONSE: Policies and Procedures - The Board of Commissioners will be  
reviewing all Policies of the Housing Authority over the next  
few months. We will establish a system that will ensure each  
policy is reviewed and undated on a regular basis as needed.  
Most recently the board has approved a new Personnel Policy and  
EIV Policy. The Board will look into establishing committees  
to review policies.

This finding continues.

2007-03

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.

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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

PRIOR YEAR FINDINGS  
(Continued)

2007-03 (Continued)

MANAGEMENT  
RESPONSE:

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 during monthly board meetings ensuring that they are properly supported.

This finding continues.

2007-04

CONDITION:

COLLATERIALIZATION

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

CURRENT  
CONDITION:

The Authority does not have current general depository agreements for all financial institutions.

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).

MANAGEMENT  
RESPONSE:

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 regulations. We will also ensure that HUD Forms 52736-A and 52736-B are executed and completed for all financial institutions doing business with the Housing Authority.

This finding continues.

2007-05

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.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

CURRENT YEAR FINDINGS  
(Continued)

2007-05 (Continued)

CAUSE/EFFECT: The timing of the Authority write off's and adjustments on the unaudited REAC submission caused changes in the audited submission and effect the REAC score.

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

MANAGEMENT  
RESPONSE:

The Housing Authority will develop an Internal Control Policy that will discuss the review of financial statements. We have also created a Financial Committee within the Board of Directors consisting of two commissioners. Each of these members receives a duplicate copy of all financials directly from our Fee Accountant for review.

This finding continues.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE  
Kendallville, Indiana

DECEMBER 31, 2007

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

2005-01	Audit Conducted Late	Cleared
2005-02	Cash Disbursements	Cleared
2005-03	Payroll	Continues as 2007-01
2005-04	Policies and Procedures	Continues as 2007-02
2005-05	Journal Vouchers	Continues as 2007-03
2005-06	Account Balance Support	Cleared
2005-07	Collateralization	Continues as 2007-04
2005-08	Budget	Cleared
2006-01	Internal controls over financial statements	Continues as 2007-05

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.

FINDINGS FROM MEMORANDUM OF UNDERSTANDING

The Authority completed a Memorandum of Understanding with the Indianapolis HUD office dated September 8, 2008. The Authority is in the process of complying with the scheduled competition dates.

# *Jean Sidels*

**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**

September 26, 2008

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, 2007, 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 September 26, 2008 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.

**CONDITION: SEARCH FOR UNRECORDED LIABILITIES:**

During the search for unrecorded liabilities there was one invoice found that should have been accrued but was not.

**RECOMMENDATION:**

The Authority should thoroughly review all January and February invoices and ensure that all December liabilities are recorded in the proper period.

**CONDITION: MINUTES:**

During the review of the minutes it was noted that minutes are prepared and available in a binder, however, they are not signed.

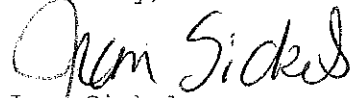
**RECOMMENDATION:**

The minutes should be signed by the Secretary and the Chairman of the Board of Directors.

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,

A handwritten signature in cursive script that reads "Jean Sickels". The signature is written in dark ink and is positioned above the printed name and title.

Jean Sickels  
Certified Public Accountant