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May 28, 2014

Board of Directors
Housing Authority of the City of Union City
321 W. Oak
Union City, IN 47390

We have reviewed the audit report prepared by Jean Sickels, CPA, Independent Public Accountant, for the period October 1, 2011 to September 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of Union City, as of September 30, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

UNION CITY HOUSING AUTHORITY

AUDITED FINANCIAL STATEMENTS

Union City, Indiana

September 30, 2012

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

UNION CITY
HOUSING AUTHORITY

Union City, Indiana
September 30, 2012

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Jean Sickels

Certified Public Accountant

8518 S. Kays Chapel Rd.
Fredericksburg, IN 47120

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Union City Housing Authority
100 Raulston Avenue
Union City, Indiana

I have audited the accompanying financial statements of the Union City Housing Authority ("the Authority") as of and for the year ended September 30, 2012 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.

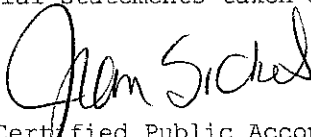
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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 Union City Housing Authority as of September 30, 2012, and the changes in financial position and cash flows thereof for the year then ended 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 January 17, 2013 on my consideration of the Union City Housing Authority's internal control over financial reporting and on 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 on pages i through vi, is not a required part of the basic 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 inquiries 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.

My audit was conducted for the purpose of forming an opinion on the financial statements of the Union City Housing Authority. The accompanying Financial Data Schedule, Schedule of Expenditures of Federal Awards required by the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the other supplemental information as listed in the table of contents as are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountant

Fredericksburg, Indiana
January 17, 2013

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

Our discussion and analysis of the Union City Housing Authority financial performance provides the reader with an overview to the Authority's financial activities for the fiscal year ended September 30, 2012. The information contained in this MD&A should be considered in conjunction with the Authority's basic financial statements which are included with this MD&A.

FINANCIAL HIGHLIGHTS

- The Authority's cash balance at September 30, 2012 was \$10,037 representing an increase of \$6,278 from September 30, 2011.
- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$32,463 (net assets).
- The Authority had HUD operating grants of \$585,052 and investment income of \$10 for the year ended September 30, 2012.

USING THIS ANNUAL REPORT

This annual report consists of the Management's Discussion and Analysis, the basic financial statements, and notes to the financial statements. The MD&A provides a narrative of the Authority's financial performance and activities for the year ended September 30, 2012. The basic statements provide readers with a broad overview of the Authority's finances. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- Statement of Net Assets - presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial situation of the Authority is improving.
- Statement of Activities - presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.
- Statement of Cash Flows - presents information showing how the Authority's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

HOUSING AUTHORITY ACTIVITIES AND HIGHLIGHTS

The Union City Housing Authority achieved a 77.79% occupancy rate in the Housing Choice Voucher Program for the FYE September 30, 2012. This rate decreased from the previous FYE September 30, 2011 Housing Choice Voucher Program occupancy rate of 88.66%.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)

FINANCIAL OPERATIONS HIGHLIGHTS

The Union City Housing Authority expended \$82,153 less in housing assistance payments for very low income families in Union City in FYE September 30, 2012 than in the previous FYE September 30, 2011.

The Union City Housing Authority adopts a consolidated annual operating budget for all programs. The program budgets for Housing Assistance Payments (HAP). Funds are approved by the U.S. Departments of Housing and Urban Development on a basis consistent with the grant application covering HAP Programs.

Cash decreased this year due to an increase in spending at Royal Oaks to finish up construction work in progress started in previous fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Union City Housing Authority
Attn: Amy Holt, Executive Director
321 West Oak Street
Union City, IN 47390
1-765-964-4544

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)

Statement of Net Assets - The following table summarizes the changes in Net Assets between September 30, 2012 and 2011:

	2012	2011	NET CHANGE
ASSETS			
<u>Current Assets</u>			
Cash - Unrestricted	\$ 1,000	\$ 469	\$ 531
Accounts Receivable	0	1,879	(1,879)
Prepaid Expenses	113	3,362	(3,249)
Total Current Assets	1,113	5,710	(4,597)
Cash - Restricted	9,037	3,290	5,747
<u>Property and Equipment</u>			
Building	177,506	177,506	0
Equipment	19,683	19,683	0
Accumulated Depreciation	(46,043)	(35,605)	(10,438)
Fixed Assets, net	151,146	161,584	(10,438)
TOTAL ASSETS	\$ 161,296	\$ 170,584	\$ (9,288)
LIABILITIES & NET ASSETS			
<u>Current Liabilities</u>			
Accounts Payable	8,142	5,782	2,360
Current Portion of Long Term Debt	4,215	3,368	847
Total Current Liabilities	12,357	9,150	3,207
TOTAL LONG-TERM DEBT	116,476	120,136	(3,660)
NET ASSETS			
Invested in Capital Assets	30,456	38,080	(7,624)
Restricted Net Assets	93,234	92,431	803
Unrestricted Net Assets	(91,227)	(89,213)	(2,014)
TOTAL NET ASSETS	32,463	41,298	(8,835)
<u>Net Assets/Liabilities</u>	\$ 161,296	\$ 170,584	\$ (9,288)

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)

Statement of Activities - The following table summarizes the changes in Operating Income between September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>NET CHANGE</u>
REVENUE			
Tenant Revenue	\$ 15,304	\$ 19,227	(3,923)
Other Revenue	0	10	(10)
HUD Operating Grants	585,052	688,503	(103,451)
Investment Income	10	31	(21)
Fraud Recovery Income	1,146	267	879
TOTAL REVENUE	<u>601,512</u>	<u>708,038</u>	<u>(106,526)</u>
EXPENSES			
Operating Expenses	66,650	119,073	(52,423)
Housing Assistance Payments	523,935	606,088	(82,153)
Depreciation Expense	10,438	11,332	(894)
Interest Expense	9,324	9,544	(220)
TOTAL EXPENSES	<u>610,347</u>	<u>746,037</u>	<u>(135,690)</u>
Net Change	<u>\$ (8,835)</u>	<u>\$ (37,999)</u>	<u>\$ (29,164)</u>

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)

Statement of Cash Flows - The following table summarizes the changes in cash between September 30, 2012 and 2011:

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Net Operating Income	\$ 479	\$(28,486)
Depreciation	10,438	11,332
Changes in operating assets & liabilities:		
(Increase) Decrease in:		
Accounts Receivable	1,879	(1,069)
Prepays	3,249	(11)
Increase (Decrease) in:		
Accounts Payable	2,360	2,068
Net Cash Flows Provided (Used)		
By Operating Activities	18,405	(16,166)
 CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	0	(285)
Principal payments	(2,813)	(3,146)
Interest paid	(9,324)	(9,544)
Net Cash Flows Provided (Used)		
By Capital & Related Financing Activities	(12,137)	(12,975)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	10	31
Net Cash Flows Provided		
By Investing Activities	10	31
 Net Increase (Decrease) in Cash	6,278	(29,110)
 BEGINNING CASH & CASH EQUIVALENTS	3,759	32,869
 ENDING CASH & CASH EQUIVALENTS	\$10,037	\$ 3,759

UNION CITY HOUSING AUTHORITY
Union City, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012
(Continued)

RECONCILIATION OF PROPERTY & EQUIPMENT

	<u>2012</u>	<u>2011</u>	<u>NET CHANGE</u>
Balance	\$151,146	\$161,584	\$(10,438)

The changes in property and equipment consist of the following:

Additions	
9/30/12 depreciation	<u>\$(10,438)</u>
Change in property and equipment	(10,438)

DEBT

The Housing Authority has a \$130,000 loan at 7.63% (APR) interest, due in monthly installments of \$1,057.63 with the final payment due 7/29/2029.

	<u>9/30/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>9/30/12</u>
Notes payable	<u>\$ 123,504</u>	<u>\$ 0</u>	<u>\$ 2,813</u>	<u>\$ 120,691</u>

FINANCIAL STATEMENTS

UNION CITY HOUSING AUTHORITY
Union City, Indiana

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$	1,000
Restricted cash and cash equivalents		9,037
Accounts receivable - net		0
Prepaid expenses		112
Total Current Assets		10,149

Capital Assets

Land and other nondepreciable assets		0
Depreciable capital assets, net		151,147
Total Capital Assets		151,147

Total Assets		161,296
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LIABILITIES

Current liabilities

Accounts payable		4,500
Accrued liabilities		2,642
Tenant Security Deposits		1,000
Current portion of notes payable		4,215
Total Current Liabilities		12,357

Noncurrent Liabilities

Notes payable		116,476
Total Noncurrent Liabilities		116,476

Total Liabilities		128,833
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NET ASSETS

Invested in capital assets, net of related debt		30,456
Restricted		93,234
Unrestricted		(91,227)
Total Net Assets	\$	32,463

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

UNION CITY HOUSING AUTHORITY
Union City, Indiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

OPERATING REVENUES

Rental income	\$ 15,304
Other income	1,146
	<hr/>
TOTAL OPERATING REVENUE	16,450

OPERATING EXPENSES

Administrative	52,840
Utilities	6,812
Ordinary maintenance and operation	1,794
General expense	14,528
Housing assistance payments	523,935
Depreciation expense	10,438
	<hr/>
TOTAL OPERATING EXPENSES	610,347

OPERATING INCOME (LOSS) (593,897)

NONOPERATING REVENUES

Federal operating grants	585,052
Gain on the sale of capital assets	10
	<hr/>
TOTAL NONOPERATING REVENUES	585,062

CHANGE IN NET ASSETS (8,835)

TOTAL NET ASSETS - BEGINNING OF YEAR 41,298

TOTAL NET ASSETS - END OF YEAR \$ 32,463

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

UNION CITY HOUSING AUTHORITY
Union City, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and other deposits	\$ 18,329
Payments to vendors	(25,799)
Payments to landlords	(523,935)
Payments to employees	(44,565)
Net Cash Used by Operating Activities	<u>(575,970)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal operating grants received	<u>585,052</u>
Net Cash Flows Provided by Noncapital Financing Activities	<u>585,052</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Mortgage principal payments	(2,813)
Gain on the sale of capital assets	10
Acquisition and construction of capital assets	<u>(1)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(2,804)</u>

Net Increase (Decrease) in Cash and Cash Equivalents 6,278

Cash - Beginning of year 3,759

Cash - End of year \$ 10,037

Reconciliation of Cash

Unrestricted	\$ 1,000
Restricted	<u>9,037</u>
Total Cash and Cash Equivalents	\$ <u><u>10,037</u></u>

Continued

UNION CITY HOUSING AUTHORITY
Union City, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)

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

Operating income (loss)	\$	(593,897)
Adjustments to reconcile net operating income to net cash Provided by operating activities:		
Depreciation		10,438
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		1,879
Prepaid expenses		3,250
Increase (Decrease) in:		
Accounts payable		4,673
Accrued liabilities		(2,313)
Net Cash Flows Provided by Operating Activities	\$	<u>(575,970)</u>

The accompanying notes are an integral part of these financial statements

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE A - Summary of Significant Accounting Policies and Organization:

The financial statements of the UNION CITY HOUSING AUTHORITY ("the Authority") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 Union City Housing Authority. There are no component units to be included herewith, but this report does include all programs which are controlled by the entity's governing body.

The financial statements of the Union City Housing Authority include the following:

At September 30, 2012, the Housing Authority has 128 units under management.

<u>Project</u>	<u>Units</u>
Business Activities	3
Vouchers	<u>125</u>
TOTAL	<u>128</u>

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.

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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Continued)

NOTE A - Summary of Significant Accounting Policies: (Continued)

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.

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 requirements imposed by HUD represent a legally enforceable requirement upon this Voucher 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.

Budget compared to actual presentation is not presented because the Authority does not annually adopt a legally authorized budget. The Authority's budget is adopted by the Authority's board and approved by HUD. This budget does not represent a legally binding appropriated budget that has been signed into law or a non-appropriated budget authorized by constitution. The Authority's budget represents budgetary execution and management by its board and HUD; therefore, budgetary data and presentation is not required.

Cash and Cash Equivalents - Deposits consist of a checking account and are stated at fair value. Deposits are fully collateralized or vested in securities of the United States Government and are identified specifically in the name of the Authority.

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid cash deposits and cash equivalents with a maturity of three months or less when purchased and non negotiable Certificates of Deposit to be cash equivalents. There were no noncash investing, capital, and financing activities during the year.

Tenant Receivables - Receivables for rentals and service charges are reported at net of an allowance for doubtful accounts. The Authority board takes monthly action as required to write off specific uncollectible accounts receivable balances.

Prepaid - Prepays represent payments made to vendors for services that will benefit beyond September 30, 2012.

Inventories - Inventories (if any) are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The consumption method is applied and expense is charged when inventory items are used for the units.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(Continued)

NOTE A - Summary of Significant Accounting Policies: (Continued)

Capital assets - Capital assets purchased are recorded on the Statement of Net Assets at the time of purchase. Such assets are recorded at cost. The capitalization policy of the Authority requires assets to be capitalized when their cost is \$500 or more. Donated assets are recorded at fair market value at the date of donation. Because developments and major capital repairs or improvements are financed through cash advances from HUD, there are no capitalized interest costs in current programs.

Depreciation of capital assets is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Buildings and improvements	15-40 years
Maintenance and Office equipment	3-7 years

Compensated Absences - Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. 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.

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 (if any) and unrestricted resources are available for use, it is the Authorities policy to use unrestricted resources first, then restricted resources as they are needed.

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

Leasing Activities (as Lessor) - The Authority is the lessor of dwelling units primarily 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 income". Rental income per resident generally remains consistent from year to year, but is affected by general economic conditions which impact personal income, such as local job availability.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Continued)

NOTE B - 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 the time of purchase. At September 30, 2012, the Authority's deposits were not limited and all of which are either available on demand or have maturities of less than two years.

B. **Credit Risk:** This is a risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

C. **Custodial Credit Risk:** This is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the Authority's investments in securities are held in the name of the Authority. The Authority's custodial agreement policy prohibits counterparties holding securities not in the Authority's name.

At September 30, 2012, the carrying amount of the Authority's deposits was \$10,037 and the bank balance was \$10,563. 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 reserves.

Deposits consist of the following:

Checking accounts	<u>\$ 10,037</u>
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UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(Continued)

NOTE C - Accounts Receivable:

Accounts receivable at September 30, 2012, consist of the following:

Rent, net of allowance for doubtful
accounts of \$1,500 \$ 0

NOTE D - Prepaid Expenses:

Prepaid expenses at September 30, 2012, consist of the following:

Prepaid insurance \$ 112

NOTE E - Capital Assets:

A summary in changes in capital assets is as follows:

	Beginning Balance 9/30/11	Increases	Decreases	Transfers	Ending Balance 9/30/12
Capital assets, not being depreciated:					
Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Capital Assets, Not being depreciated	0	0	0	0	0
Capital Assets, being depreciated:					
Buildings & Improvements	177,506	0	0	0	177,506
Furniture, Equipment & Machinery	19,683	0	0	0	19,683
Total Capital Assets, being depreciated	197,189	0	0	0	197,189
Less Accumulated Depreciation for:					
Buildings & Improvements	(28,484)	(8,418)	0	0	(36,902)
Furniture, Equipment and Machinery	(7,121)	(2,020)	0	0	(9,141)
Total Accumulated Depreciation:	(35,605)	(10,438)	0	0	(46,043)
Total Capital Assets, being depreciated, net	161,584	(10,438)	0	0	151,147
Capital Assets, Net	\$ 161,584	\$ (10,438)	\$ 0	\$ 0	\$ 151,147

Depreciation expense of \$10,438 was incurred during the year.

NOTE F - Accounts Payable:

Accounts payable at September 30, 2012, consist of the following:

Vendors' accounts payable \$ 4,500

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012
(Continued)

NOTE G - Accrued Liabilities:

Accrued liabilities at September 30, 2012, consist of the following:

Accrued wages and payroll taxes	\$ 1,081
Accrued interest	<u>1,561</u>
 Total	 <u>\$ 2,642</u>

NOTE H - Notes Payable:

The detail of the Housing Authority's long term debt at year end is set forth below:

	9/30/11	Increase	Decrease	9/30/12
Notes payable	\$ <u>123,504</u>	\$ <u>0</u>	\$ <u>2,813</u>	\$ <u>120,691</u>

Debt service requirements for the long term debt for the next five years are as follows:

	Principal	Interest
2013	\$ 4,215	\$ 9,031
2014	3,950	8,742
2015	4,261	8,430
2016	4,572	8,117
2017	4,959	7,732
Thereafter	<u>98,734</u>	<u>71,298</u>
 Total	 <u>\$ 120,691</u>	 <u>\$ 113,350</u>

NOTE I - Federal Operating Grants:

HUD contributed operating subsidies approved in the operating budgets under the Annual Contributions Contracts. These subsidy contribution for the operating year ended September 30, 2012 were as follows:

Housing Choice Vouchers	\$ <u>585,052</u>
-------------------------	-------------------

NOTE J - Commitments and Contingencies:

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 were no examinations during the year ended September 30, 2012.

Grant Disallowances - Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, would 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.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Continued)

NOTE K - Risk Management:

The Authority is exposed to various risks of losses 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 coverage for these risks to the extent deemed prudent by Authority management. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

NOTE L - Economic Dependency:

The Authority receives approximately 99% of its revenues from HUD. If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

NOTE M - Defined Contribution Plan:

The Authority contributes to Principal Financial Group Retirement Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account, the returns earned on investments of those contributions. And forfeitures of other participant's benefits that may be allocated to such participant's account. As established by the Authority's personnel policy, all full-time employees of the Authority must participate in the pension plan beginning 6 months from the date they are hired.

Contributions made by an employee vest immediately and contributions made by the Authority vest after five years of full time employment. An Employee who waves the employment of the Authority is entitled to his or her contributions and the Authority's contributions to the extent vested and the earnings on these amounts. As determined by the plan provisions, the Authority is required to contribute an amount equal to 14.5% of the employee's base annual salary.

The Authority's contributions were calculated using the base salary amount of \$28,080. During the year ended September 30, 2012, the Authority's required and actual contributions amounted to \$2,387, which was 8.5% of its current-year covered payroll, the employee contributions amounted to \$842. No pension plan provision changes occurred during the year that affected the required contributions to be made by the Authority or its employees. The Union City Housing Authority Retirement Plan held no securities of the Authority of other related parties during the year or as of the close of the fiscal year ended September 30, 2012.

NOTE N - Contingencies:

Subsequent to the year end, the Authority and the Mortgage holder for the loan are in a legal dispute concerning the validity of the mortgage.

SUPPLEMENTAL FINANCIAL INFORMATION

UNION CITY HOUSING AUTHORITY
Union City, Indiana

COMBINING SCHEDULE OF PROGRAM NET ASSETS
SEPTEMBER 30, 2012

	IN046 Section 8 Voucher Program	Business Activities	Interfund Elimination	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 0	\$ 1,000	\$ 0	\$ 1,000
Restricted cash and cash equivalents	9,037	0	0	9,037
Accounts receivable - net	0	0	0	0
Prepaid expenses	112	0	0	112
Interprogram due from	10,657	0	(10,657)	0
Total Current Assets	19,806	1,000	(10,657)	10,149
Capital Assets				
Land and other nondepreciable assets	0	0	0	0
Depreciable capital assets, net	31,327	119,820	0	151,147
Total Capital Assets	31,327	119,820	0	151,147
Total Assets	51,133	120,820	(10,657)	161,296
LIABILITIES				
Current liabilities				
Accounts payable	0	4,500	0	4,500
Accrued liabilities	1,081	1,561	0	2,642
Tenant Security Deposits	0	1,000	0	1,000
Current portion of notes payable	0	4,215	0	4,215
Interprogram due to	0	10,657	(10,657)	0
Total Current Liabilities	1,081	21,933	(10,657)	12,357
Noncurrent Liabilities				
Notes payable	0	116,476	0	116,476
Total Noncurrent Liabilities	0	116,476	0	116,476
Total Liabilities	1,081	138,409	(10,657)	128,833
NET ASSETS				
Invested in capital assets, net of debt	31,327	(871)	0	30,456
Restricted	93,234	0	0	93,234
Unrestricted	(74,509)	(16,718)	0	(91,227)
Total Net Assets	\$ 50,052	\$ (17,589)	\$ 0	\$ 32,463

UNION CITY HOUSING AUTHORITY
Union City, Indiana

COMBINING SCHEDULE OF PROGRAM REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>IN046</u>		
	Section 8		
	Voucher	Business	
	Program	Activities	Total
<u>OPERATING REVENUES</u>			
Rental income	\$ 0	\$ 15,304	\$ 15,304
Other income	1,146	0	1,146
TOTAL OPERATING REVENUE	1,146	15,304	16,450
<u>OPERATING EXPENSES</u>			
Administrative	52,190	650	52,840
Utilities	1,487	5,325	6,812
Ordinary maintenance and operation	0	1,794	1,794
General expense	2,544	11,984	14,528
Housing assistance payments	523,935	0	523,935
Depreciation expense	2,683	7,755	10,438
TOTAL OPERATING EXPENSES	582,839	27,508	610,347
OPERATING INCOME (LOSS)	(581,693)	(12,204)	(593,897)
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Federal operating grants	585,052	0	585,052
Gain on the sale of capital assets	10	0	10
TOTAL NONOPERATING REVENUES	585,062	0	585,062
CHANGE IN NET ASSETS	3,369	(12,204)	(8,835)
TOTAL NET ASSETS - BEGINNING OF YEAR	46,683	(5,385)	41,298
TOTAL NET ASSETS - END OF YEAR	\$ 50,052	\$ (17,589)	\$ 32,463

Housing Authority of the City of Union City (IN086)
Union City, IN

Entity Wide Balance Sheet Summary

Submission Type: Unaudited/A-133

Fiscal Year End: 09/30/2012

	14.871 Housing Choice Vouchers	1 Business Activities	Subtotal	ELIM	Total
111 Cash - Unrestricted					
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted	\$9,037		\$9,037		\$9,037
114 Cash - Tenant Security Deposits		\$1,000	\$1,000		\$1,000
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$9,037	\$1,000	\$10,037	\$0	\$10,037
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects					
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous					
126 Accounts Receivable - Tenants		\$1,500	\$1,500		\$1,500
126.1 Allowance for Doubtful Accounts - Tenants		-\$1,500	-\$1,500		-\$1,500
126.2 Allowance for Doubtful Accounts - Other					
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery					
128.1 Allowance for Doubtful Accounts - Fraud					
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$0	\$0	\$0	\$0	\$0
131 Investments - Unrestricted					
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$112		\$112		\$112
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From	\$10,657		\$10,657	-\$10,657	\$0
145 Assets Held for Sale					
150 Total Current Assets	\$19,806	\$1,000	\$20,806	-\$10,657	\$10,149
161 Land					
162 Buildings	\$36,377	\$141,130	\$177,507		\$177,507
163 Furniture, Equipment & Machinery - Dwellings		\$1,583	\$1,583		\$1,583
164 Furniture, Equipment & Machinery - Administration	\$18,100		\$18,100		\$18,100
165 Leasehold Improvements					
166 Accumulated Depreciation	-\$23,150	-\$22,893	-\$46,043		-\$46,043
167 Construction in Progress					
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$31,327	\$119,820	\$151,147	\$0	\$151,147
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$31,327	\$119,820	\$151,147	\$0	\$151,147
190 Total Assets	\$51,133	\$120,820	\$171,953	-\$10,657	\$161,296
311 Bank Overdraft					
312 Accounts Payable <= 90 Days					
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable					

322	Accrued Compensated Absences - Current Portion	\$1,081		\$1,081		\$1,081
324	Accrued Contingency Liability					
325	Accrued Interest Payable		\$1,561	\$1,561		\$1,561
331	Accounts Payable - HUD PHA Programs					
332	Account Payable - PHA Projects					
333	Accounts Payable - Other Government					
341	Tenant Security Deposits		\$1,000	\$1,000		\$1,000
342	Deferred Revenues		\$4,500	\$4,500		\$4,500
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds		\$4,215	\$4,215		\$4,215
344	Current Portion of Long-term Debt - Operating Borrowings					
345	Other Current Liabilities					
346	Accrued Liabilities - Other					
347	Inter Program - Due To		\$10,657	\$10,657	-\$10,657	\$0
348	Loan Liability - Current					
310	Total Current Liabilities	\$1,081	\$21,933	\$23,014	-\$10,657	\$12,357
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		\$116,476	\$116,476		\$116,476
352	Long-term Debt, Net of Current - Operating Borrowings					
353	Non-current Liabilities - Other					
354	Accrued Compensated Absences - Non Current					
355	Loan Liability - Non Current					
359	FASB 5 Liabilities					
357	Accrued Pension and OPEB Liabilities					
350	Total Non-Current Liabilities	\$0	\$116,476	\$116,476	\$0	\$116,476
300	Total Liabilities	\$1,081	\$138,409	\$139,490	-\$10,657	\$128,833
508.1	Invested in Capital Assets, Net of Related Debt	\$31,327	-\$671	\$30,456		\$30,456
511.1	Restricted Net Assets	\$93,234		\$93,234		\$93,234
512.1	Unrestricted Net Assets	-\$74,509	-\$16,718	-\$91,227		-\$91,227
513	Total Equity/Net Assets	\$50,052	-\$17,589	\$32,463	\$0	\$32,463
600	Total Liabilities and Equity/Net Assets	\$51,133	\$120,820	\$171,953	-\$10,657	\$161,296

Housing Authority of the City of Union City (IN086)

Union City, IN

Entity Wide Revenue and Expense Summary

Submission Type: Unaudited/A-133

Fiscal Year End: 09/30/2012

	14,871 Housing Choice Vouchers	1 Business Activities	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue		\$15,304	\$15,304		\$15,304
70400 Tenant Revenue - Other					
70500 Total Tenant Revenue	\$0	\$15,304	\$15,304		\$15,304
70600 HUD FHA Operating Grants	\$585,052		\$585,052		\$585,052
70610 Capital Grants					
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue					
70800 Other Government Grants					
71100 Investment Income - Unrestricted					
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery	\$1,146		\$1,146		\$1,146
71500 Other Revenue					
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted	\$10		\$10		\$10
70000 Total Revenue	\$586,208	\$15,304	\$601,512		\$601,512
91100 Administrative Salaries	\$29,497		\$29,497		\$29,497
91200 Auditing Fees	\$1,000		\$1,000		\$1,000
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$7,275		\$7,275		\$7,275
91600 Office Expenses	\$7,263		\$7,263		\$7,263
91700 Legal Expense					
91800 Travel	\$406		\$406		\$406
91810 Allocated Overhead					
91900 Other	\$6,749	\$650	\$7,399		\$7,399
91000 Total Operating - Administrative	\$52,190	\$650	\$52,840		\$52,840
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other					
92500 Total Tenant Services	\$0	\$0	\$0		\$0
93100 Water	\$474	\$1,963	\$2,437		\$2,437
93200 Electricity	\$1,013	\$3,362	\$4,375		\$4,375
93300 Gas					
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					

93800 Other Utilities Expense				
93000 Total Utilities	\$1,487	\$5,325	\$6,812	\$6,812
94100 Ordinary Maintenance and Operations - Labor				
94200 Ordinary Maintenance and Operations - Materials and Other				
94300 Ordinary Maintenance and Operations Contracts		\$1,794	\$1,794	\$1,794
94500 Employee Benefit Contributions - Ordinary Maintenance				
94000 Total Maintenance	\$0	\$1,794	\$1,794	\$1,794
95100 Protective Services - Labor				
95200 Protective Services - Other Contract Costs				
95300 Protective Services - Other				
95500 Employee Benefit Contributions - Protective Services				
95000 Total Protective Services	\$0	\$0	\$0	\$0
96110 Property Insurance	\$1,268		\$1,268	\$1,268
96120 Liability Insurance	\$105	\$376	\$481	\$481
96130 Workmen's Compensation				
96140 All Other Insurance				
96100 Total Insurance Premiums	\$1,373	\$376	\$1,749	\$1,749
96200 Other General Expenses		\$784	\$784	\$784
96210 Compensated Absences	\$1,171		\$1,171	\$1,171
96300 Payments in Lieu of Taxes				
96400 Bad debt - Tenant Rents		\$1,500	\$1,500	\$1,500
96500 Bad debt - Mortgages				
96600 Bad debt - Other				
96800 Severance Expense				
96000 Total Other General Expenses	\$1,171	\$2,284	\$3,455	\$3,455
96710 Interest of Mortgage (or Bonds) Payable		\$9,324	\$9,324	\$9,324
96720 Interest on Notes Payable (Short and Long Term)				
96730 Amortization of Bond Issue Costs				
96700 Total Interest Expense and Amortization Cost	\$0	\$9,324	\$9,324	\$9,324
96900 Total Operating Expenses	\$56,221	\$19,753	\$75,974	\$75,974
97000 Excess of Operating Revenue over Operating Expenses	\$529,987	-\$4,449	\$525,538	\$525,538
97100 Extraordinary Maintenance				
97200 Casualty Losses - Non-capitalized				
97300 Housing Assistance Payments	\$523,935		\$523,935	\$523,935
97350 HAP Portability-In				
97400 Depreciation Expense	\$2,683	\$7,755	\$10,438	\$10,438
97500 Fraud Losses				
97600 Capital Outlays - Governmental Funds				
97700 Debt Principal Payment - Governmental Funds				
97800 Dwelling Units Rent Expense				
90000 Total Expenses	\$582,839	\$27,508	\$610,347	\$610,347
10010 Operating Transfer In				
10020 Operating transfer Out				
10030 Operating Transfers from/to Primary Government				
10040 Operating Transfers from/to Component Unit				
10050 Proceeds from Notes, Loans and Bonds				
10060 Proceeds from Property Sales				
10070 Extraordinary Items, Net Gain/Loss				
10080 Special Items (Net Gain/Loss)				
10091 Inter Project Excess Cash Transfer In				

10092 Inter Project Excess Cash Transfer Out				
10093 Transfers between Program and Project - In				
10094 Transfers between Project and Program - Out				
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	\$3,369	-\$12,204	-\$8,835	-\$8,835
11020 Required Annual Debt Principal Payments	\$0	\$3,985	\$3,985	\$3,985
11030 Beginning Equity	\$46,683	-\$5,385	\$41,298	\$41,298
11040 Prior Period Adjustments, Equity Transfers and Correction of				
11050 Changes in Compensated Absence Balance				
11050 Changes in Contingent Liability Balance				
11070 Changes in Unrecognized Pension Transition Liability				
11080 Changes in Special Term/Severance Benefits Liability				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents				
11100 Changes in Allowance for Doubtful Accounts - Other				
11170 Administrative Fee Equity	-\$43,182		-\$43,182	-\$43,182
11180 Housing Assistance Payments Equity	\$93,234		\$93,234	\$93,234
11190 Unit Months Available	1504	36	1540	1540
11210 Number of Unit Months Leased	1503	34	1537	1537
11270 Excess Cash				
11510 Land Purchases				
11620 Building Purchases				
11630 Furniture & Equipment - Dwelling Purchases				
11640 Furniture & Equipment - Administrative Purchases				
11650 Leasehold Improvements Purchases				
11660 Infrastructure Purchases				
13510 CFFP Debt Service Payments				
13901 Replacement Housing Factor Funds				

UNION CITY HOUSING AUTHORITY
Union City, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<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-086	Section 8 Housing Choice Vouchers	14.871	\$ 585,052	\$ 585,052
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 585,052</u>	<u>\$ 585,052</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 Sickels

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
Union City Housing Authority
100 Raulston Avenue
Union City, Indiana

I have audited the financial statements of the Union City Housing Authority, as of and for the year ended September 30, 2012, and have issued my report thereon dated January 17, 2013, 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 Union City Housing 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 Union City Housing Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Union City Housing Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies in internal control over financial reporting. The findings reference numbers are 2012-01 and 2012-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

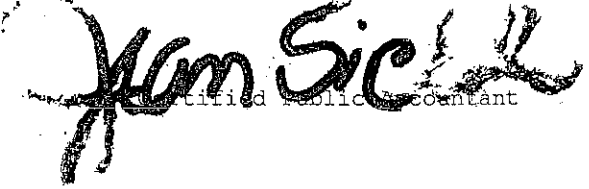
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Union City Housing Authority'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-02.

I noted certain matters that I reported to management of Union City Housing Authority in a separate letter dated January 17, 2013.

The Union City Housing Authority's response to the finding identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the Union City Housing Authority'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 board, 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, Indiana
January 17, 2013

Jean Sickels

Certified Public Accountant

8518 S. Kays Chapel Rd.
Fredericksburg, IN 47120

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Union City Housing Authority
100 Raulston Avenue
Union City, Indiana

Compliance

I have audited the compliance of the Union City Housing Authority with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2012. The Union City Housing Authority's major federal program is 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 Union City Housing Authority's management. My responsibility is to express an opinion on Union City Housing Authority'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 Union City Housing Authority'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 Union City Housing Authority's compliance with those requirements.

In my opinion, Union City Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2012. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2012-03 and 2012-04.

Internal Control Over Compliance

Management of the Union City Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Union City Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Union City Housing Authority's internal control over compliance.

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-03 and 2012-04. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Union City Housing Authority's responses to the finding identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit Union City Housing Authority's responses and, accordingly, I express no opinion the responses.

This report is intended solely for the information and use of the Authority's management and board 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, Indiana
January 17, 2013

UNION CITY HOUSING AUTHORITY
Union City, Indiana

SEPTEMBER 30, 2012

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? X yes no
~ Significant deficiency(s) identified that are
not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements
noted? X yes no

FEDERAL AWARDS

Internal control over major programs:
~ Material weakness(es) identified? X yes no
~ Significant deficiency(s) 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>
14.871	Housing Choice Voucher Program

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

Auditee qualified as low-risk auditee? X yes no

UNION CITY HOUSING AUTHORITY
Union City, Indiana

SEPTEMBER 30, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PRIOR YEAR FINDINGS

2011-01

RENTAL RECEIPT PROCESS:

PRIOR

CONDITION: The Authority does not have systems in place to properly account for rental income.

CURRENT

CONDITION: Continues as 2012-01.

This finding continues as of 2012-01.

2011-02

CASH DISBURSEMENTS:

PRIOR

CONDITION: The Authority does not have systems in place to properly account for cash disbursements.

CURRENT

CONDITION: Continues as 2012-02.

This finding continues as 2012-02.

2011-03

941 PENALTIES:

PRIOR

CONDITION: The Authority paid non filing and late penalties for the 941's.

CURRENT

CONDITION: The 941's were filed on time.

This finding is cleared.

2011-04

UNALLOWABLE EXPENSES:

PRIOR

CONDITION: The Authority has paid expenses for the business activities program (rental property) from the Voucher program cash account.

CURRENT

CONDITION: Continues as 2012-03.

This finding continues as 2012-03.

2011-05

SEMAP:

PRIOR

CONDITION: The Authority did not properly prepare the Section 8 management assessment form (SEMAP).

CURRENT

CONDITION: Continues as 2012-04.

This finding continues as 2012-04.

UNION CITY HOUSING AUTHORITY
Union City, Indiana

SEPTEMBER 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS

2012-01

CURRENT
CONDITION:

RENTAL RECEIPT PROCESS:

The Authority does not have systems in place to properly account for rental income.

CRITERIA:

HUD rules and regulations require a system of internal controls for the cash receipts process for rental collections.

CAUSE/EFFECT:

The Authority acquired an apartment building and did not put a system in place to record rental transactions.

RECOMMENDATION:

I recommend the Authority implement proper internal controls including a rental register and a daily statement of operations. The Authority should place greater emphasis on safe keeping its records and ensuring all information requested is readily available for audit examination.

REPLY:

The Housing Authority will be adopting a new policy concerning rental receipts. This includes a rental register, monthly statement of operations, and recordkeeping policies. This policy will be effective December 31, 2013.

DISCUSSED WITH:

Amy Holt 1/17/13

2012-02

CURRENT
CONDITION:

CASH DISBURSEMENTS:

The Authority does not have systems in place to properly account for cash disbursements.

CRITERIA:

HUD rules and regulations require a system of internal controls for the cash disbursement process.

CAUSE/EFFECT:

The Authority does not have a good filing system and proper supporting documentation was not attached to vouchers. The Authority policy allowed for a board member's signature to be used as opposed to the board member reviewing and hand signing administrative checks.

RECOMMENDATION:

I recommend the Authority review its policy for the signing of administrative checks. The Authority should implement proper internal controls including appropriate supporting documentation for all disbursements. The Authority should place greater emphasis on safe keeping its records and ensuring all information requested is readily available for audit or examination.

REPLY:

The Housing Authority has already corrected this finding. Stamps are no longer used for any administrative checks. They must be hand signed by at least one Board member. We are currently establishing a new filing system and this will be completed by December 31, 2013.

DISCUSSED WITH:

Amy Holt 1/17/13

UNION CITY HOUSING AUTHORITY
Union City, Indiana

SEPTEMBER 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CURRENT YEAR FINDINGS

Continued

2012-03

UNALLOWABLE EXPENSES:

CURRENT
CONDITION: The Authority has paid expenses for the business activities program (rental property) from the Voucher program cash account.

CRITERIA: HUD rules and regulations require that the voucher program cash can only be used for allowable costs as stated in the annual contributions contract.

CAUSE/EFFECT: The Authority used the voucher funds to pay for the rental property expenses. These transactions were accounted for as an interfund between the programs.

QUESTIONED COSTS: \$10,657

RECOMMENDATION: I recommend that the Authority implement proper budgeting internal controls in order to determine if the property will cash flow and pay back the liability.

REPLY: The Housing Authority is currently implementing a budget to determine when these funds will be paid back. The budget will be completed by December 31, 2013.

DISCUSSED WITH: Amy Holt 01/17/13

2011-04

SEMAP:

CURRENT
CONDITION: The Authority did not properly prepare the Section 8 management assessment form (SEMAP).

CRITERIA: HUD rules and regulations require the rules at 24 CFR section 982 to be followed:

CAUSE/EFFECT: The Authority does not understand the procedures for gathering the data for indicators number 1, 5, and 6.

RECOMMENDATION: I recommend the Authority review the SEMAP reporting rules and perform the proper tests to report the indicators listed above.

REPLY: The Authority has reviewed the regulations and will perform the proper tests to report effective on our next SEMAP 2013.

DISCUSSED WITH: Amy Holt 1/17/13

Jean Sickels

Certified Public Accountant

8518 S Kays Chapel Rd
Fredericksburg, IN 47120

phone (812) 472-3527

fax (812) 472-3649

cell (404) 307-5903

January 17, 2013

Board of Commissioners
Union City Housing Authority
903 6th Street
Union City, CO 80631

In planning and performing my audit of the financial statements of the Union City Housing Authority as of and for the year ended September 30, 2012, I considered 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 audit, I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect my report dated January 17, 2013 on the financial statements of the Authority.

I will review the status of the comments during my next audit engagement. I have already discussed the comment and suggestion with Authority personnel, and will be pleased to discuss the comments 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:

1. CONDITION: MINUTES

The Minutes were not signed and filed in the Minute book.

RECOMMENDATION:

Get the Board Chairman to sign the minutes then bind them in the book.

2. CONDITION: CLIENT FILES

In the sample of 10% of the files one was missing a rent reasonableness form and three were missing 214 Immigration status forms.

RECOMMENDATION:

The Authority should ensure that all required information is in the client file.

3. CONDITION: JOURNAL VOUCHERS

The authority did not review the Fee Accountants Journal Vouchers.

RECOMMENDATION:

The Authority should put procedures in place to ensure that the audit is completed on time.

4. CONDITION: BUDGET AND PAYROLL BUDGET

The Authority does not have a budget that it operates within.

RECOMMENDATION:

The Authority should develop a budget for payroll and an overall budget.

5. CONDITION: LAND & DEPRECIATION

The Authority did not allocate a part of the building cost to the value of the land.

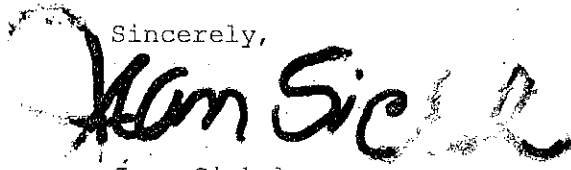
RECOMMENDATION:

The Depreciation Schedule should be corrected.

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 black ink that reads "Jean Sickels". The signature is written in a cursive, slightly slanted style.

Jean Sickels
Certified Public Accountant