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June 20, 2014

Board of Directors
Kokomo Housing Authority
210 E. Taylor Street
P.O. Box 1207
Kokomo, IN 46903-1207

We have reviewed the audit report prepared by Jean Sickels, CPA, Independent Public Accountant, for the period January 1, 2012 to December 31, 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 Kokomo Housing Authority, as of December 31, 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

HOUSING AUTHORITY OF THE CITY OF KOKOMO

AUDITED FINANCIAL STATEMENTS

Kokomo, Indiana

December 31, 2012

Jean Sickels

Certified Public Accountant

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KOKOMO
HOUSING AUTHORITY

Kokomo, Indiana
DECEMBER 31, 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
Housing Authority of the City of Kokomo
P.O. Box 1207
Kokomo, Indiana 46903-1207

Report on the Financial Statements

I have audited the accompanying financial statements of the Housing Authority of the City of Kokomo ("the Authority") which comprise the statement of net position as of December 31, 2012, and the related statements of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Kokomo's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Kokomo as of December 31, 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.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through x be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the financial statements, and other knowledge I obtained during my audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

My audit was conducted for the purpose of forming an opinion on the Authority's financial statements as a whole. The accompanying Financial Data Schedule, Schedule of Expenditures of Federal Awards, as 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 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Certified Public Accountant

Fredericksburg, Indiana
July 30, 2013

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis
December 31, 2012

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

Our discussion and analysis of the financial performance of the Housing Authority of the City of Kokomo, Indiana (Housing Authority) provides an overview of the Housing Authority's financial activities for the fiscal year ended December 31, 2012. Please read the MD&A in conjunction with the Housing Authority's financial statements.

For accounting purposes, the Housing Authority is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Financial Highlights

Total assets of the Authority for the year ended December 31, 2012, were \$17,949,257. Total liabilities were \$333,106. Total assets exceeded liabilities by \$17,616,151 (net position). The Housing Authority's net position decreased by \$326,328 during the year ended December 31, 2012.

Total revenues for the year ended December 31, 2012 were \$7,221,981. Total expenditures for the year ended December 31, 2012, were \$7,548,359. Expenditures exceeded revenues by \$326,378 for the year.

During 2012, the following grant was closed: Capital Fund IN36P00750109 of \$795,276.

As of December 31, 2012, the Authority's net investment in capital assets was \$15,364,197 (net of accumulated depreciation). This investment includes land, buildings, improvements, and equipment. Capital outlays for the year were \$172,538.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Financial Statements, and the Notes to the Financial Statements. The Housing Authority's financial statements are presented as fund level financial statements because the Housing Authority only has proprietary funds.

The financial statements of the Housing Authority report information of the Housing Authority using accounting methods similar to those used by

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Overview of the Financial Statements (continued)

private sector companies. These statements offer short-term and long-term financial information about the Housing Authority's activities.

The Statement of Net Position includes all the Housing Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Housing Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Housing Authority and assessing the liquidity and financial flexibility of the Housing Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Changes in Net Position. This statement measures the success of the Housing Authority's operations over the past year and can be used to determine whether the Housing Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

HUD has established Uniform Financial Reporting Standards that require the Housing Authority to submit financial information electronically to HUD using the FDS format. This financial information has been electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2012.

Financial Analysis

The Housing Authority's financial statements are the Statement of Net Position and the Statement of Changes in Net Position. The Statement of Net Position provides a summary of the Housing Authority's assets and liabilities as of the close of business on December 31, 2012. The Statement of Changes in Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2012, and the expenses incurred in operating the Housing Authority for the year ended December 31, 2012.

The Housing Authority accounts for its housing activities in several programs. The following analysis focuses on the net position and the change in net position of the Housing Authority as a whole and not the individual programs.

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Statement of Net Position

December 31, 2012

<u>ASSETS</u>	FYE Dec. 31, 2012	FYE Dec. 31, 2011	Net Change
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 1,487,796	\$ 1,479,243	\$ 8,553
Accounts Receivable	74,358	19,527	54,831
Mortgages Receivable	20,125	23,550	(3,425)
Prepaid Expense	153	0	153
Inventory	56,810	55,092	1,718
Total Current Assets	<u>1,639,242</u>	<u>1,577,412</u>	<u>61,830</u>
Capital Assets, Net	<u>15,364,197</u>	<u>16,066,236</u>	<u>(702,039)</u>
Restricted Cash	<u>945,818</u>	<u>887,227</u>	<u>58,591</u>
Total Other Assets	<u>945,818</u>	<u>887,227</u>	<u>58,591</u>
Total Assets	<u>\$ 17,949,257</u>	<u>\$ 18,530,875</u>	<u>\$ (581,618)</u>
<u>LIABILITIES</u>			
<u>Current liabilities</u>			
Accounts Payable	\$ 122,048	\$ 122,638	\$ (590)
Payable from restricted cash and cash equivalents:			
Tenant's security deposits	81,869	83,648	(1,779)
Deferred revenue	44,242	26,389	17,853
Total Current Liabilities	<u>248,159</u>	<u>232,675</u>	<u>15,484</u>
<u>Noncurrent Liabilities</u>			
Investments in Partnerships	<u>0</u>	<u>281,818</u>	<u>(281,818)</u>
Other noncurrent liabilities	<u>84,947</u>	<u>73,853</u>	<u>11,094</u>
Total Noncurrent Liabilities	<u>84,947</u>	<u>355,671</u>	<u>(270,724)</u>
Total Liabilities	<u>\$ 333,106</u>	<u>\$ 588,346</u>	<u>\$ (255,240)</u>
<u>Net Position</u>			
Unrestricted	\$ 1,606,853	\$ 1,285,320	\$ 321,533
Restricted	645,101	590,973	54,128
Net investment in capital assets	<u>15,364,197</u>	<u>16,066,236</u>	<u>(702,039)</u>
Total Net Position	<u>\$ 17,616,151</u>	<u>\$ 17,942,529</u>	<u>\$ (326,378)</u>

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position

Cash and Cash Equivalents increased from \$1,479,243 in FY 2011 to \$1,487,796 in FY 2012 due to Net Income of \$366,931 (not including Depreciation (noncash) Expense of \$975,127 and extraordinary (noncash) income of \$281,818), deferred revenues of \$44,242 including \$11,851 of prepaid tenant rents and \$32,391 for recognized (noncash) HCV fraud recovery, less outlays for Low Rent capital assets of \$7,000.

Accounts Receivable for the Housing Authority increased from \$19,527 in FY 2011 to \$74,358 in FY 2012. At FYE 2011 there was \$4,352 receivable from HUD for grant payments, but \$36,898 was receivable from HUD at FYE 2012. Net tenants accounts receivable increased by \$19,633 from \$37,804 in 2011 to 57,437 in 2012. The second silent mortgage allowance for doubtful accounts increased from (\$26,975) in FY 2011 to (\$23,550) in FY 2012. Accrued interest receivable decreased from \$686 in FYE 2011 to \$148 in FYE 2012.

The Section 32 Low Income Homeownership silent second mortgage decreased from \$23,550 in 2011 to \$20,125 in 2012 due to the cancellation of \$3,425 (one-tenth of the original mortgages).

Prepaid Expense increased from \$0 in FY 2011 to \$153 in FY 2012. In 2011, no expenses were prepaid, but in 2012 the Housing Authority had prepaid \$153 for the following year's postage.

Inventory increased from \$55,092 in FY 2011 to \$56,810 in FY 2012. Inventories increased by \$2,015, but the allowance for obsolete inventory was increased by \$297 resulting in the net increase of \$1,718.

Restricted cash increased from \$887,227 in FY 2011 to \$945,818 in FY 2012. HCV Program HAP Equity increased by \$80,914 due to \$71,600 of HAP expense less than what was received from HUD for HAP funding, \$8,788 received in fraud recovery, and \$526 earned in interest. Cash restricted for payment of current liabilities increased by \$5,194. Family Self-Sufficiency Escrows increased by \$17,175. The Low Income Homeownership account decreased by \$22,880 from the rehabilitation of several scattered sites. The Briarwick Construction Fund spent \$1,656 of restricted cash for construction costs. Cash restricted for Tenant Security Deposits decreased by \$1,779. Accrued wages payable decreased by a net of \$18,374 due to payouts of \$21,666 and increases of \$3,292.

Accounts Payable decreased from \$122,638 in FY 2011 to \$122,048 in FY 2012. Accrued utility expense increased by \$3,095 to \$77,837, and other vendor accruals decreased by \$3,685 and consists of an increase of \$32,152 in payroll related accruals, a \$2,462 increase in IDA funds payable to eligible homeownership participants, a \$12,293 decrease in current accrued compensated absences, and a decrease of \$26,006 for other accounts payable.

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position (continued)

Tenant Security Deposits decreased from \$83,648 as of December 31, 2011, to \$81,869 as of December 31, 2012.

Deferred revenue, which increased from \$26,389 in FY 2011 to \$44,242 in FY 2012, consisted of a decrease of \$4,259 in the amount of tenant prepaid rent in 2012. January 1st is a holiday each year, so residents who receive disability payments from the Federal government received their payments on December 31, 2011, and December 31, 2012. Many of these residents prepaid their January rent. In addition, a \$22,112 increase in income was recognized in FY 2012 due to unreported income from the HCV program.

During 2012, \$281,818 was recorded as an increase in our investment in the Jefferson Crossing joint venture because the property was sold and the partnership dissolved. The General Partners contributed enough to cover any deficit balances; therefore, the decrease in noncurrent liabilities for this fiscal year is \$281,818 bringing the Housing Authority Partnership interest to \$0. Other Noncurrent Liabilities increased from \$73,853 in FY 2011 to \$84,947 in FY 2012 and included escrow accounts for those tenants who were enrolled in the five-year Family Self-Sufficiency program. Their total escrow balances increased from \$39,690 in FY 2011 to \$56,865 in FY 2012. \$13,091 was paid to participants who completed the program during 2012. The non-current portion of accrued wages decreased by \$6,081.

Unrestricted Net Position increased by \$321,533 from \$1,285,320 in FY 2011 to \$1,606,853 in FY 2012 due to a gain in operating reserves of \$52,032 for 2012 in the Low Income Public Housing program, an increase of \$282,023 in Business Activities, and a reduction of \$12,522 in the Section 8 Voucher program.

Restricted Net Position increased by \$54,128 from \$590,973 in FY 2011 to \$645,101 in FY 2012. The assets from the scattered site sales program, which was established in 2006 for the net proceeds of scattered site sales from the LIPH Homeownership Program, decreased by \$25,130; and the Housing Choice Voucher HAP Equity increased by \$80,914 mostly due to more HAP funding received than HAP payments made. The Briarwick Construction Fund spent \$1,656 of restricted cash for construction costs.

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position (continued)

<u>Changes in Net Position</u>			
	<u>FYE</u>	<u>FYE</u>	
<u>OPERATING REVENUES</u>	<u>Dec. 31, 2012</u>	<u>Dec. 31, 2011</u>	<u>Net Change</u>
Rental income	\$ 859,351	\$ 821,028	\$ 38,323
Other income	70,634	49,606	21,028
TOTAL OPERATING REVENUE	929,985	870,634	59,351
<u>OPERATING EXPENSES</u>			
Administrative	1,315,172	1,291,760	23,412
Tenant services	236,208	245,636	(9,428)
Utilities	706,117	690,541	15,576
Ordinary maintenance & operation	1,363,581	1,440,290	(76,709)
Protective services	63,000	40,503	22,497
Casualty loss - not capitalized	11,281	5,615	5,666
General expense	199,559	239,938	(40,379)
Housing assistance payments	2,960,132	3,072,402	(112,270)
Depreciation expense	975,127	912,785	62,342
TOTAL OPERATING EXPENSES	7,830,177	7,939,470	(109,293)
OPERATING INCOME (LOSS)	(6,900,192)	(7,068,836)	168,644
<u>NONOPERATING REVENUES</u>			
Federal grants	6,025,108	6,079,816	(54,708)
Gain or loss on capital assets	(1,961)	41,567	(43,528)
Extraordinary items, gain/loss	281,818	(787)	282,605
Interest income	2,315	2,159	156
TOTAL NONOPERATING REVENUE	6,307,280	6,122,755	184,525
CAPITAL CONTRIBUTIONS	266,534	146,169	120,365
CHANGE IN NET POSITION	(326,378)	(799,912)	473,534
TOTAL NET POSITION - BEGINNING OF YEAR	17,942,529	18,742,441	(799,912)
TOTAL NET POSITION - END OF YEAR	\$ 17,616,151	\$ 17,942,529	\$ (326,378)

Rental income increased by \$38,323 from \$821,028 in FY 2011 to \$859,351 in FY 2012.

Other income increased by \$21,028 from \$49,606 in FY 2011 to \$70,634 in FY 2012. Fraud recovery from unreported income in the HCV program increased by \$11,852. In the Low Rent Program non-dwelling rental increased by \$750, laundry income decreased by \$1,167 and insurance dividends and miscellaneous income increased by \$5,419. In the Section 8 Program, \$4,404 was recovered in 2012 from FSS Escrow forfeitures, but none in 2011, and in 2011 \$230 was earned from Portability Admin fees, but none in 2012.

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position (continued)

Administrative salaries and benefits increased by \$30,335 or 3% due to increased salary and benefit costs resulting from annual raises. Staff training expenses increased by \$6,140. Legal expense decreased by \$4,621, office expenses decreased by \$4,774, unemployment benefit costs decreased by \$3,063, and other administrative expenses decreased by \$605 for a net increase of \$23,412.

Tenant services decreased by \$9,428. Salary and benefit costs decreased by \$19,967. Although annual raises were given, the position of Community Activities Director was vacant for about half the year due to employee illness and another employee discontinued health coverage. Resident Services increased by \$10,539 due to increased resident activity expenses from the Resident Opportunities and Self-Sufficiency (ROSS) Grant.

Utilities expense increased by \$15,576. Water and sewage increased by \$26,403, electricity by \$19,452, and gas decreased by \$30,279.

Maintenance salaries and benefits increased by \$48,917 or 8% partly due to increased salary and benefit costs resulting from annual raises. In addition, some budgeted positions were not filled throughout 2011 but were filled throughout 2012.

Maintenance material costs increased by \$16,886. Maintenance contract costs decreased by a net of \$142,512 due to higher costs for elevator maintenance, landscape and grounds, electrical maintenance and extermination and lower costs for trash removal, heating and cooling contracts, plumbing contracts, other miscellaneous contracts and \$78,616 reduced contract costs expended from the Capital Funds.

Protective Services contract costs increased by \$22,497 in FY 2012 due to \$10,000 for additional police protection in 2011 which was not billed or paid from the Capital Fund until 2012 resulting in \$30,000 being paid in 2011 and \$50,000 in 2012.

In 2011, several small incidents which did not exceed our deductible resulted in \$6,684 in expense. Also a unit was damaged by fire toward the end of the year resulting in \$1,962 of expenses paid during 2011, but the remainder of the costs and insurance reimbursement occurred in 2012. One of the KHA vans was totaled, and \$3,031 for reimbursement was received for a 2011 net loss of \$5,615. In 2012, the remaining expenses from the fire that occurred in 2011 were \$21,680 and insurance reimbursement was \$25,662. Another fire occurred in 2012 resulting in \$1,951 in expenses. A power outage occurred at an elderly and disabled development resulting in expenses of \$2,075. Mold remediation was required in one unit with the expenses of \$6,630. A vehicle was damaged with \$1,000 in expenses and \$500 in insurance reimbursement. In addition, small incidents that did not exceed our deductibles resulted in \$4,107 in expense for a net 2012 loss of \$11,281.

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position (continued)

General expenses decreased during FY 2012 by \$40,379 from a decrease of \$2,201 in insurance costs, an increase of \$2,503 in payment in lieu of taxes (PILOT), an increase of \$4,487 in tenant rent bad debt, a decrease in compensated absences of \$43,164, and a decrease of \$2,004 in miscellaneous general expense. In 2011, the policy of paying for unused sick leave was established so the 2011 expense was large accounting for the large decrease in 2012.

The average Housing Assistance Payment decreased from \$419.08 in FY 2011 to \$408.72 in FY 2012, and leasing decreased by 88 unit months resulting in a decrease in Housing Assistance Payments of \$112,270.

Depreciation expense increased by \$62,342 from the addition to capital assets of \$165,538 for assets from closed grants and \$7,000 from purchases.

The decrease in Federal grants of \$54,708 is a net result attributed to several programs. Low Rent subsidy increased by \$84,361 mostly due to increased utility expenses. HUD decreased the funding level from 100% for 2011 to 95% for 2012. The Capital Fund grants received \$5,870 in decreased funding, and the ROSS Service Coordinator Grant received \$8,446 more funding for a net grant funding increase of \$2,576. The Section 8 Voucher subsidy decreased by \$141,645. The Housing Assistance Payment (HAP) subsidy is based on prior periods' payments made. The Administrative Fee Subsidy is based on prior periods' units leased and was reduced from receiving 83.36% of eligibility in 2012 to only 79.74% of eligibility.

The gain on capital assets in 2011 was a result of the sale of one scattered site through the Section 32 Homeownership Program. The sales produced a gain \$41,567 in FY 2011. The loss of \$1,961 in 2012 resulted from the disposal of capital assets which were not fully depreciated.

The extraordinary items gain increased by \$282,605. The Housing Authority held a .51% general partnership interest in Jefferson Crossing Limited Partnership with the remaining 99.49% general and limited partnership interests held by unrelated investors. During 2012, Jefferson Crossing joint venture property was sold and the partnership dissolved. The General Partners contributed enough to cover any deficit balances; therefore, the increase in extraordinary items for this fiscal year is \$281,818 bringing the Housing Authority Partnership interest to \$0.

During FY 2012, interest rates on funds remained low during the year as they did in FY 2011. The Low Rent Public Housing program earned \$404 less interest, the Section 8 Voucher program \$1,098 less, and Business Activities \$395 more due to selling a home under the Homeownership Program. In addition, there was a \$1,158 reduction in market value on the FHLMC bonds held by the Section 8 Voucher program in FY 2011, but a

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Significant Changes in the Statement of Net Position (continued)

\$107 increase in FY 2012 for an increase of \$1,263 resulting in the \$156 increase from FY 2011 to FY 2012.

Capital contributions are the funds received through the Capital Grant Program that finance the improvements, repairs and replacements to the Housing Authority's buildings and equipment. During 2012, the Authority spent \$120,365 more than during 2011 on the projects that were undertaken.

Financial Position and Results of Operations

The Housing Authority's net assets decreased in 2012 from \$17,942,529 in 2011 to \$17,616,151 by \$326,529. The decrease in net assets is due to the fact that expenses exceeded revenues for the year. The total operating expenses decreased by \$109,293, the operating revenue increased by \$59,351, the non-operating income increased by \$184,525 and the capital contributions increased by \$120,365.

Overall there was a \$54,708 decrease in total Federal Grants in 2012: a 1% (\$5,870) decrease from the Capital Fund Grants, a 4% (\$141,645) decrease in funding for the Section 8 Voucher Program, a 5% (\$84,361) increase for the Low Income Public Housing Program, and a 16% (8,446) increase from the ROSS Service Coordinator grant.

Capital Assets

Capital Assets are the largest asset reflected on the Authority's statement of net position. The following is a summary of capital assets owned by the Authority at December 31, 2012:

Land	\$ 1,131,352
Buildings	27,608,213
Furniture and equipment	1,803,883
Construction in Progress	305,989
Sub-total	30,849,437
Less: Accumulated Depreciation	(15,485,240)
Capital Assets, net	<u>\$ 15,364,197</u>
Capital Assets at December 31, 2011	\$ 16,066,237
2012 Depreciation	(975,127)
Low Rent Capital Outlays	7,000
Capital Fund Additions	165,538
Increase in Construction in Progress	102,510
Disposals, net of accumulated depreciation	(1,961)
Capital Assets at December 31, 2012	<u>\$ 15,364,197</u>

Housing Authority of the City of Kokomo
Kokomo, Indiana

Management's Discussion and Analysis

December 31, 2012

(Continued)

Debt

The Housing Authority has no long-term notes or mortgages; however, there is a balance of \$84,947 in noncurrent liabilities which consists of \$56,865 of residents' Family Self-Sufficiency escrow deposits and \$28,082 of accrued compensated absences. There are also current accounts payables of \$248,159 consisting of vendor accounts payable of \$122,048 all of which are due and payable within the year, \$81,869 in tenants' security deposits, and \$44,242 of deferred revenues.

Subsequent Events

The Authority adopted an operating budget for FYE December 31, 2013. This budget reflects total operating revenues of \$7,068,293 and total operating expenses of \$7,171,143. KHA based the budget on the Low Rent program being funded at a 95% level. The 2012 funding level was 95%. Due to the sequestration, for the first eight months of 2013, HUD has funded the Low Rent Subsidy at only 82.5% of eligible funding. If this level continues for all of 2013, the Low Rent Program will receive \$245,485 less than what was budgeted. Due to this possibility, Kokomo Housing Authority has already reduced the number of employees and is tightly controlling expenditures.

HUD has awarded KHA \$2,732,648 in HAP funding for 2013 which could be adjusted monthly based on HAP payments during the year, and \$155,444 in administrative fees for January through July of 2013. Administrative fees are paid solely on the basis of the number of units leased as of the first of each month. The total fee eligibility will be calculated monthly, based on the Authority's VMS reporting. KHA received a Family Self-Sufficiency (FSS) grant for a part-time FSS Coordinator in the amount of \$20,828. The resident participation has increased, and KHA will apply for a full-time position for 2014. Using the HAP funding awarded through December, 2013, the administrative fees received through July 2013, and the FSS grant, if the funding level remains the same, the Housing Choice Voucher program may receive \$332,687 less than budgeted. In this program, also, Kokomo Housing Authority has reduced the number of employees and is tightly controlling expenditures.

Request for Information

This financial report is designed to provide a general overview of the Authority's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Authority's Chief Executive Officer or the Director of Finance:

Kokomo Housing Authority
PO Box 1207
Kokomo, IN 46903-1207
765-459-3162

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS

Current Assets

Cash	\$ 1,487,796
Accounts receivable, net	74,358
Prepaid expenses	153
Inventory, net	56,810
Total Current Assets	<u>1,619,117</u>

Noncurrent Assets

Restricted assets	
Restricted cash and investments	945,818
Notes and Mortgages receivable	<u>20,125</u>
Capital assets	
Land and other nondepreciable assets	1,437,341
Depreciable capital assets, net	13,926,856
Total Capital Assets	<u>15,364,197</u>
Total Noncurrent Assets	<u>16,330,140</u>

TOTAL ASSETS 17,949,257

LIABILITIES

Current liabilities

Accounts payable	203,917
Deferred revenue	44,242
Total current liabilities	<u>248,159</u>

Noncurrent liabilities

Investments in joint ventures	0
Compensated absences	28,082
Escrow deposits	56,865
Total Noncurrent liabilities	<u>84,947</u>

TOTAL LIABILITIES 333,106

NET POSITION

Unrestricted	1,606,853
Restricted	645,101
Net investment in capital assets	15,364,197

TOTAL NET POSITION \$ 17,616,151

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

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES

Total rental income	\$	859,351
Other income		70,634

TOTAL OPERATING REVENUE		929,985
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OPERATING EXPENSES

Administrative		1,315,172
Tenant services		236,208
Utilities		706,117
Ordinary maintenance and operation		1,374,862
Protective services		63,000
General expense		199,559
Housing assistance payments		2,960,132
Depreciation expense		975,127

TOTAL OPERATING EXPENSES		7,830,177
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OPERATING INCOME (LOSS)		(6,900,192)
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NONOPERATING REVENUES

Federal operating grants		6,025,108
Gain on sale of capital assets		(1,961)
Gain on sale of investments in partnerships		281,818
Interest income		2,315

TOTAL NONOPERATING REVENUES		6,307,280
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INCOME (LOSS) BEFORE OTHER REVENUES		(592,912)
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CAPITAL CONTRIBUTIONS		266,534
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INCREASE (DECREASE) IN NET POSITION		(326,378)
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NET POSITION, BEGINNING OF YEAR		17,942,529
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NET POSITION, END OF YEAR		\$ 17,616,151
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The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from residents and other deposits	\$	802,248
Other receipts (payments)		70,634
Payments to suppliers		(1,794,418)
Payments to/for employees		(2,093,646)
Payments to landlords		<u>(2,960,132)</u>
 Net Cash Flows Provided (Used) by Operating Activities		 <u>(5,975,314)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal operating grants received		<u>6,025,108</u>
Net Cash Flows Provided (Used) by Noncapital Financing Activities		<u>6,025,108</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Federal capital grants received		266,534
Gain on sale of capital assets		(1,961)
Purchase of capital assets		<u>(249,538)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities		<u>15,035</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments		49,516
Interest income		<u>2,315</u>
Net Cash Flows Provided by Investing Activities		<u>51,831</u>

Net change in cash		116,660
Cash - Beginning of year		<u>2,316,954</u>
Cash - End of year	\$	<u><u>2,433,614</u></u>

Reconciliation of Cash:

Unrestricted	\$	1,487,796
Restricted		<u>945,818</u>
Total Cash and Cash Equivalents	\$	<u><u>2,433,614</u></u>

Continued

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ (6,900,192)
Adjustments to reconcile net operating income to net cash Provided by operating activities:	
Depreciation	975,127
(Increase) Decrease in:	
Accounts receivable	(74,956)
Inventory and prepaid expenses	(1,871)
Increase (Decrease) in:	
Accounts payable	(2,369)
Accrued liabilities	11,094
Deferred revenue	17,853
Net Cash Flows Provided (Used) by Operating Activities	\$ <u>(5,975,314)</u>

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

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies and Organization:

The financial statements of the HOUSING AUTHORITY OF THE CITY OF KOKOMO ("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.

The HOUSING AUTHORITY OF THE CITY OF KOKOMO ("the Authority") is a political subdivision both corporate and politic which was established under the provision of Indiana Statutes, to provide adequate housing at rents which persons of low-income can afford in areas where there exists a shortage. To accomplish this purpose, the Authority has entered into annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD) to be the Administrator of a Low Income Public Housing program (Contract No. C-941) and a Section 8 Housing Choice Voucher program (Contract No. C-2034).

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 Kokomo, a primary government. Although it is legally separate from the Kokomo Housing Authority, the Jefferson Crossing Housing Development Corporation is reported as if it 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 they have the same governing boards. The Housing Authority also uses the Khatco Corporation to provide training for low and moderate income individuals and Section 8 landlords. Accordingly the Jefferson Crossing Housing Development Corporation's and Khatco, Inc.'s financial information have been blended with the Kokomo Housing Authority.

At December 31, 2012, the Housing Authority had 1,240 units in management and was administering other programs as listed below:

Management

Low-Income Public Housing	551
Section 8 Housing Choice Vouchers	<u>689</u>
TOTAL ALL MANAGEMENT PROGRAMS	<u>1,240</u>

Other Programs

Capital Fund Program
Resident Opportunity and Supportive Services
Business Activities:

Tax Credit Partnership-Jefferson Crossing Housing Development Corp.
Non-Profit Training Company - Khatco, Inc.
Bond Refunding Construction Fund

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 KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(Continued)

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

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflow of resources, liabilities, and deferred inflow of resources are included in the Statement of Net Position. The Statement of Changes in Net Position present increases (revenues) and decreases (expenses) in net position. Under the Accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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 position categories:

Net Investment in Capital Assets - 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 position 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.

Unrestricted - Net position that are not subject to externally imposed stipulations. Unrestricted net position 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.

Accounting Policies - The financial statements of 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.

Use of Enterprise Accounting - The Authority presents its financial statements using enterprise accounting, as allowed by governments. Although the Authority accounts for its programs using accounts for its internal reporting, the Authority is considered to be a unified enterprise fund for reporting purposes. Accordingly, the Authority uses the economic resources measurement focus and the related accrual basis of accounting. Under the economic resources measurement focus, the Authority accounts for all assets and liabilities. Under the accrual basis of accounting, expenses are recorded when the goods and services are received, irrespective of when paid for, and revenues are recorded as earned, irrespective of when cash is received.

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

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

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 has been omitted 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 an 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.

Deposits in Bank - Deposits consist of checking accounts and savings accounts 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 deposits (including restricted assets) with a maturity of three months or less when purchased and non negotiable Certificates of Deposit to be cash equivalents. There were no non-cash investing, capital or financing activities during the year.

Tenant Receivables - Receivables for rentals and tenant charges are reported at net of an allowance for doubtful accounts. The Housing Authority Board takes action as necessary (at least annually) to write off specific uncollectible accounts receivable balances.

Interprogram Receivables and Payables - Interprogram receivables/payables are all current, and are the result of the use of the Low Income Public Housing 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 are eliminated for the financial statement presentation.

Inventories - Inventories (consisting of materials and supplies) are valued at cost, which approximated market value, 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. 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.

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

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

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

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 - Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. 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. It is the policy of the Authority to capitalize assets costing \$500 or more. Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

Buildings & Improvements	15-40 years
Furniture, Equipment & Machinery	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. Any portion of vacation time not taken by December 31 will be forfeited.

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 and required deductibles in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.

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 expenditures during the reporting period. Actual results could differ from those estimates.

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(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.

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 Income". Rental Income per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions, such as local job availability, which impact personal income.

NOTE 2 - Deposits, Cash and Cash Equivalents, and Investments:

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 ten years at time of purchase. At December 31, 2012, the Authority's deposits and investments were not limited and all of which are either available on demand or have callable maturities of less than ten 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.

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

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

The carrying amounts of the Authority's cash deposits were \$2,433,614 at December 31, 2012. Bank balances before reconciling items were \$2,537,027, the total amount of which 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.

Cash and Deposits at December 31, 2012, consist of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash/Checking accounts	\$ 1,980,800	\$ 2,075,799
Money Market/Savings/CDs	<u>452,814</u>	<u>461,228</u>
 Total cash and deposits	 <u>\$ 2,433,614</u>	 <u>\$ 2,537,027</u>

NOTE 3 - Accounts Receivable (Current and Non-Current):

Accounts receivables at December 31, 2012 consist of the following:

HUD	\$ 36,898
Interest Receivable	148
Current Portion of Mortgage Receivable	3,425
Fraud Recovery Receivable	32,391
Tenant Receivables	
Net of Allowance for Doubtful Accounts of \$31,823	<u>1,496</u>
 Total	 <u>\$ 74,358</u>

NOTE 4 - Prepaid Expenses:

Prepaid expenses at December 31, 2012 consist of the following:

Prepaid Expenses	<u>\$ 153</u>
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NOTE 5 - Inventory:

Inventory at December 31, 2012 consists of the following:

Inventory, net of allowance of \$6,517	<u>\$ 56,810</u>
--	------------------

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

NOTE 6 - Capital Assets:

A summary in changes in capital assets is as follows:

	Beginning Balance <u>12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>12/31/12</u>
Capital assets, not being depreciated:				
Land	\$ 1,131,352	\$ 0	\$ 0	\$ 1,131,352
Construction in Progress	<u>203,479</u>	<u>268,048</u>	<u>(165,538)</u>	<u>305,989</u>
Total Capital Assets, not being depreciated	<u>1,334,831</u>	<u>268,048</u>	<u>(165,538)</u>	<u>1,437,341</u>
Capital Assets, being depreciated:				
Buildings and Improvements	27,531,346	76,867	0	27,608,213
Furniture, equipment & Machinery	<u>1,753,025</u>	<u>95,671</u>	<u>(44,813)</u>	<u>1,803,883</u>
Total Capital Assets, being depreciated	<u>29,284,371</u>	<u>172,538</u>	<u>(44,813)</u>	<u>29,412,096</u>
Less Accumulated Depreciation for:				
Buildings	(13,506,651)	(818,711)	0	(14,325,362)
Furniture, equipment & Machinery	<u>(1,046,314)</u>	<u>(156,416)</u>	<u>42,852</u>	<u>(1,159,878)</u>
Total Depreciation	<u>(14,552,965)</u>	<u>(975,127)</u>	<u>42,852</u>	<u>(15,485,240)</u>
Total Capital Assets, being depreciated, net	<u>14,731,406</u>	<u>(802,589)</u>	<u>(1,961)</u>	<u>13,926,856</u>
Capital Assets, Net	<u>\$16,066,237</u>	<u>\$ (534,541)</u>	<u>\$ (167,499)</u>	<u>\$15,364,197</u>

Depreciation expense for the year was: \$975,127

The following is a schedule of significant capital construction projects of the Authority with remaining commitment amounts as of December 31, 2012:

2010 CFP	TT	Install New Elevator Doors	\$ 6,180
2012 CFP	CCT	Install VCS Heat Pumps	5,480
2012 CFP	CCT	Repave Parking Lot	7,210
2012 CFP	1818 Columbus	Replace Windows	<u>1,500</u>
Total Open Contracts			<u>\$ 20,370</u>

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

NOTE 7 - Investments in Joint Ventures:

Investments at December 31, 2012 consist of the following:

Tax Credit Partnership - Jefferson Crossing Housing Development Corporation	<u>\$ 0</u>
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The Housing Authority entered into a limited partnership (Jefferson Crossing Limited Partnership) agreement for the purpose of constructing and managing a 90-unit complex of 62 two bedroom units and 28 three bedroom units. Jefferson Crossing Apartments was to lease 18%, sixteen units, to low income families. The partnership had received tax credits from the State of Indiana. The Housing Authority held a .51% general partnership interest, with the remaining 99.49% general and limited partnership interests held by unrelated investors. During 2012, the property was sold and the partnership dissolved. The General Partners contributed enough to cover any deficit balances; therefore, the increase in equity for this fiscal year is \$281,818 bringing the Housing Authority Partnership interest to \$0. The partnership is accounted for on the equity basis of accounting.

NOTE 8 - Accounts Payable:

Accounts payable at December 31, 2012 consist of the following:

Vendors' Accounts Payable	\$ 82,364
Tenant Security Deposits	81,869
Other Liabilities	4,909
Accrued Wages/Payroll Taxes Payable	<u>34,775</u>
 TOTAL	 <u>\$ 203,917</u>

NOTE 9 - Deferred Revenue:

Deferred Revenue at December 31, 2012, consists of the following:

Tenant prepaid rents	\$ 11,851
HCV Fraud Recovery	<u>32,391</u>
 TOTAL	 <u>\$ 44,242</u>

NOTE 10 - Other Noncurrent Liabilities:

Beginning in 2012, the Authority began to accrue wages to pay for unused sick leave. The Authority will allow employees who voluntarily resign to cash out (subject to all usual withholdings) a maximum of thirty (30) days of accrued but unused sick leave if they meet all the required conditions.

Other noncurrent liabilities at December 31, 2012 consist of the following:

	<u>12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/12</u>
Family Self-Sufficiency				
Escrow Deposits	\$ 39,690	\$ 40,736	\$ 23,561	\$ 56,865
Accrued Compensated Wages	34,163	3,292	9,373	28,082
	<u>\$ 73,853</u>	<u>\$ 44,028</u>	<u>\$ 32,934</u>	<u>\$ 84,947</u>

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

NOTE 11- Federal Operating Grants:

HUD contributed the following operating subsidies approved in the operating budgets under the Annual Contributions Contracts:

Low Rent Public Housing	\$ 2,019,729
ROSS	63,095
Housing Choice Vouchers	3,352,854
Capital Fund Grants	<u>589,430</u>
TOTAL	<u>\$ 6,025,108</u>

NOTE 12- Capital Contributions:

The Authority receives capital grants from HUD for capital fund program improvements. Capital contributions for the fiscal year ended December 31, 2012, were \$266,534.

NOTE 13- Contingencies:

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. All amounts receivable from HUD as of December 31, 2012, have been received by the Authority.

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 December 31, 2012. Areas of noncompliance, if any, as a result of examinations would be reported in the "Schedule of Findings and Questioned Costs" section of this report.

There were certain major construction projects in progress at December 31, 2012. These include modernizing the inside and outside of rental units at the project sites. These projects are being funded by HUD. Funds are requested periodically as the cost is incurred. At December 31, 2012, the Authority had not yet spent a total of \$1,004,078 available from the Capital Fund Program grants.

Note 14- Defined Contribution Plan:

The Authority provides pension benefits for all of its full-time employees through a defined contribution plan. The name of the plan is the Employees Money Purchase Plan. The entity that administers the plan is Fortis Benefits Insurance. The Authority's Board of Commissioners is authorized to establish and amend the plan benefits.

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 contribution and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by the Authority's personnel policy,

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

Note 14- Defined Contribution Plan: (continued)

all full-time employees of the Authority must participate in the pension plan beginning 6 months from the date they are hired. As determined by the plan provisions, the Authority's contributions are an amount equal to 9.0% of the employee's base salary each month. Contributions made by the Authority vest after five years of full time employment. An Employee who leaves the employment of the Authority is entitled to the Authority's contributions to the extent vested and the earnings on these amounts. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current-period contribution requirement. During the year ended December 31, 2012, the Authority's required and actual contributions were \$125,286.

No pension plan provision changes occurred during the year that affected the required contributions to be made by the Authority. The Kokomo Housing Authority Employees Money Purchase Plan held no securities of the Authority or other related parties during the year or as of the close of the fiscal year ended December 31, 2012.

The financial statements are prepared using the accrual basis of accounting. 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.

NOTE 15- Conduit Type Debt:

Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of the Authority. Accordingly, this debt has not been recorded in the financial statements of the Housing Authority. Additionally, HUD no longer provides debt service information to the Authority.

NOTE 16- Economic Dependency:

The Authority receives approximately 87% 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.

SUPPLEMENTAL FINANCIAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

COMBINING SCHEDULE OF PROGRAM NET POSITION

DECEMBER 31, 2012

	C-941	Annual Co C-2034E
	Low Income Public Housing	Section 8 Housing Choice Voucher Program
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 669,873	\$ 36,441
Accounts receivable, net	41,819	32,539
Interprogram	0	0
Prepaid expenses	0	153
Inventory, net	0	0
Total Current Assets	711,692	69,133
<u>Noncurrent Assets</u>		
Restricted assets		
Restricted Cash and Investments	353,718	401,767
Notes and Mortgages receivable	20,125	0
Capital assets		
Land and other nondepreciable assets	1,271,390	0
Depreciable capital assets, net	13,451,723	0
Total Capital Assets	14,723,113	0
Total Noncurrent Assets	15,096,956	401,767
TOTAL ASSETS	15,808,648	470,900
<u>LIABILITIES</u>		
<u>Current liabilities</u>		
Accounts payable	164,031	1,598
Interprogram	36,898	0
Deferred revenue	11,851	32,391
Total current liabilities	212,780	33,989
<u>Noncurrent liabilities</u>		
Investments in joint ventures	0	0
Compensated absences	7,213	10,448
Escrow deposits	12,645	44,220
Total Noncurrent liabilities	19,858	54,668
TOTAL LIABILITIES	232,638	88,657
<u>NET POSITION</u>		
Unrestricted	694,921	36,742
Restricted	157,976	345,501
Net investment in capital assets	14,723,113	0
TOTAL NET POSITION	\$ 15,576,010	\$ 382,243

Contributions Contracts

<u>C-941</u>	<u>C-941</u>	<u>C-941</u>			
<u>Resident</u>	<u>Central</u>	<u>Capital</u>	<u>Business</u>	<u>Interfund</u>	<u>Total</u>
<u>Opportunity</u>	<u>Office</u>	<u>Fund</u>	<u>Activities</u>	<u>Elimination</u>	
<u>& Supportive</u>	<u>Cost</u>	<u>Program</u>			
<u>Services</u>	<u>Center</u>				
\$ 0	\$ 674,907	\$ 0	\$ 106,575	\$ 0	\$ 1,487,796
0	0	0	0	0	74,358
0	36,898	0	0	(36,898)	0
0	0	0	0	0	153
0	56,810	0	0	0	56,810
<u>0</u>	<u>768,615</u>	<u>0</u>	<u>106,575</u>	<u>(36,898)</u>	<u>1,619,117</u>
0	48,709	0	141,624	0	945,818
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,125</u>
0	123,445	0	42,506	0	1,437,341
0	475,133	0	0	0	13,926,856
<u>0</u>	<u>598,578</u>	<u>0</u>	<u>42,506</u>	<u>0</u>	<u>15,364,197</u>
<u>0</u>	<u>647,287</u>	<u>0</u>	<u>184,130</u>	<u>0</u>	<u>16,330,140</u>
<u>0</u>	<u>1,415,902</u>	<u>0</u>	<u>290,705</u>	<u>(36,898)</u>	<u>17,949,257</u>
0	38,288	0	0	0	203,917
0	0	0	0	(36,898)	0
0	0	0	0	0	44,242
<u>0</u>	<u>38,288</u>	<u>0</u>	<u>0</u>	<u>(36,898)</u>	<u>248,159</u>
0	0	0	0	0	0
0	10,421	0	0	0	28,082
0	0	0	0	0	56,865
<u>0</u>	<u>10,421</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>84,947</u>
<u>0</u>	<u>48,709</u>	<u>0</u>	<u>0</u>	<u>(36,898)</u>	<u>333,106</u>
0	768,615	0	106,575	0	1,606,853
0	0	0	141,624	0	645,101
0	598,578	0	42,506	0	15,364,197
<u>\$ 0</u>	<u>\$ 1,367,193</u>	<u>\$ 0</u>	<u>\$ 290,705</u>	<u>\$ 0</u>	<u>\$ 17,616,151</u>

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

COMBINING SCHEDULE OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	C-941	Annual Co C-2034E Section 8 Housing Choice Voucher Program
<u>OPERATING REVENUES</u>		
Rental income	\$ 859,351	\$ 0
Other income	24,265	68,786
TOTAL OPERATING REVENUE	883,616	68,786
<u>OPERATING EXPENSES</u>		
Administrative	1,087,674	329,978
Tenant services	153,291	20,828
Utilities	685,907	12,814
Ordinary maintenance and operation	1,335,382	14,209
Protective services	61,019	758
General expense	163,920	15,206
Housing assistance payments	0	2,960,132
Depreciation expense	926,531	0
TOTAL OPERATING EXPENSES	4,413,724	3,353,925
 OPERATING INCOME (LOSS)	 (3,530,108)	 (3,285,139)
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Federal operating grants	2,019,729	3,352,854
Gain on sale of capital assets	(1,961)	0
Gain on sale of investments in partnerships	0	0
Interest income	1,150	677
TOTAL NONOPERATING REVENUES (EXPENSES)	2,018,918	3,353,531
 INCOME (LOSS) BEFORE OTHER REVENUES	 (1,511,190)	 68,392
 CAPITAL CONTRIBUTIONS	 0	 0
 INCREASE (DECREASE) IN NET POSITION	 (1,511,190)	 68,392
 NET POSITION - BEGINNING OF YEAR, as originally stated	 16,231,236	 313,851
Equity transfers	855,964	0
NET POSITION - BEGINNING OF YEAR, as restated	17,087,200	313,851
 NET POSITION, END OF YEAR	 \$ 15,576,010	 \$ 382,243

Contributions Contracts

<u>C-941</u>	<u>C-941</u>	<u>C-941</u>			
<u>Resident</u>	<u>Central</u>	<u>Capital</u>	<u>Business</u>	<u>Elimination</u>	<u>Total</u>
<u>Opportunity</u>	<u>Office</u>	<u>Fund</u>	<u>Activities</u>		
<u>& Supportive</u>	<u>Cost</u>	<u>Programs</u>			
<u>Services</u>	<u>Center</u>				
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 859,351
0	665,863	0	0	(688,280)	70,634
<u>0</u>	<u>665,863</u>	<u>0</u>	<u>0</u>	<u>(688,280)</u>	<u>929,985</u>
1,006	584,608	0	186	(688,280)	1,315,172
62,089	0	0	0	0	236,208
0	7,396	0	0	0	706,117
0	25,271	0	0	0	1,374,862
0	1,223	0	0	0	63,000
0	20,433	0	0	0	199,559
0	0	0	0	0	2,960,132
0	48,596	0	0	0	975,127
<u>63,095</u>	<u>687,527</u>	<u>0</u>	<u>186</u>	<u>(688,280)</u>	<u>7,830,177</u>
(63,095)	(21,664)	0	(186)	0	(6,900,192)
63,095	0	589,430	0	0	6,025,108
0	0	0	0	0	(1,961)
0	0	0	281,818	0	281,818
0	239	0	249	0	2,315
<u>63,095</u>	<u>239</u>	<u>589,430</u>	<u>282,067</u>	<u>0</u>	<u>6,307,280</u>
0	(21,425)	589,430	281,881	0	(592,912)
0	0	266,534	0	0	266,534
0	(21,425)	855,964	281,881	0	(326,378)
0	1,388,618	0	8,824	0	17,942,529
0	0	(855,964)	0	0	0
0	1,388,618	(855,964)	8,824	0	17,942,529
<u>\$ 0</u>	<u>\$ 1,367,193</u>	<u>\$ 0</u>	<u>\$ 290,705</u>	<u>\$ 0</u>	<u>\$ 17,616,151</u>

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

STATEMENT AND CERTIFICATION OF ACTUAL CAPITAL FUND GRANT COSTS - COMPLETED
DECEMBER 31, 2012

Annual Contributions Contract C-941

501-09

1. The Capital Fund Grant Costs are as follows:

Funds Approved	\$	795,276
Funds Expended		<u>795,276</u>
Excess / (Deficiency) of Funds Approved	\$	<u><u>0</u></u>
Funds Advanced	\$	795,276
Funds Expended		<u>795,276</u>
Excess / (Deficiency) of Funds Advanced	\$	<u><u>0</u></u>

- Costs additions totaling \$ 21,724 were made during the current audit period and, accordingly, were audited by Jean Sickels, CPA.
- The total amount of the Capital Fund Grant Costs at December 31, 2012 as shown above are in agreement with the Actual Development Cost Certificate submitted to HUD and approved by HUD.
- All Capital Fund grant work in connection with the Project has been completed.
- All liabilities have been paid and there are no undischarged liens against the Project on file in any public office where the same should be filed in order to be valid and the time in which such liens could be filed has expired.
- There were no budget overruns.

Kokomo Housing Authority (IN007)
KOKOMO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

	Project Total	14.870 Resident Opportunity and Supportive Services	14.871 Housing Choice Vouchers	1 Business Activities	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$801,205					\$801,205		\$801,205
70400 Tenant Revenue - Other	\$58,146					\$58,146		\$58,146
70500 Total Tenant Revenue	\$859,351	\$0	\$0	\$0	\$0	\$859,351	\$0	\$859,351
70600 HUD PHA Operating Grants	\$2,609,159	\$63,095	\$3,352,854			\$6,025,108		\$6,025,108
70610 Capital Grants	\$266,534					\$266,534		\$266,534
70710 Management Fee					\$473,698	\$473,698	-\$473,698	\$0
70720 Asset Management Fee					\$66,120	\$66,120	-\$66,120	\$0
70730 Book Keeping Fee					\$101,656	\$101,656	-\$101,656	\$0
70740 Front Line Service Fee								
70750 Other Fees								
70700 Total Fee Revenue			\$641,474		\$641,474	\$641,474	-\$641,474	\$0
70800 Other Government Grants								
71100 Investment Income - Unrestricted	\$422		\$92	\$249	\$239	\$1,002		\$1,002
71200 Mortgage Interest Income								
71300 Proceeds from Disposition of Assets Held for Sale								
71310 Cost of Sale of Assets								
71400 Fraud Recovery			\$17,576			\$17,576		\$17,576
71500 Other Revenue	\$24,265		\$51,210		\$24,399	\$99,864	-\$46,806	\$53,058
71600 Gain or Loss on Sale of Capital Assets	-\$1,961					-\$1,961		-\$1,961
72000 Investment Income - Restricted	\$728		\$885			\$1,313		\$1,313
70000 Total Revenue	\$3,758,498	\$63,095	\$3,422,317	\$249	\$666,102	\$7,910,261	-\$698,280	\$7,211,981
91100 Administrative Salaries	\$292,501		\$164,285		\$416,656	\$873,442		\$873,442
91200 Auditing Fees	\$6,078		\$2,689			\$8,777		\$8,777
91300 Management Fee	\$443,698		\$30,000		\$473,698	\$473,698	-\$473,698	\$0
91310 Book-keeping Fee	\$48,023		\$53,633			\$101,656	-\$101,656	\$0
91400 Advertising and Marketing								
91500 Employee Benefit Contributions - Administrative	\$130,162		\$52,748		\$127,200	\$310,110		\$310,110
91600 Office Expenses	\$79,645		\$18,681		\$24,594	\$122,920	-\$46,806	\$76,114
91700 Legal Expense	-\$1,559				\$2,550	\$991		\$991
91800 Travel		\$1,006				\$1,006		\$1,006
91810 Allocated Overhead								
91900 Other	\$23,006		\$7,932	\$186	\$13,608	\$44,732		\$44,732
91000 Total Operating - Administrative	\$1,021,554	\$1,006	\$329,978	\$186	\$584,608	\$1,937,332	-\$622,160	\$1,315,172
92000 Asset Management Fee	\$66,120					\$66,120	-\$66,120	\$0
92100 Tenant Services - Salaries	\$101,496	\$34,262	\$17,855			\$153,613		\$153,613
92200 Relocation Costs								
92300 Employee Benefit Contributions - Tenant Services	\$41,955	\$14,305	\$2,973			\$59,231		\$59,231
92400 Tenant Services - Other	\$9,842	\$13,522				\$23,364		\$23,364

92500 Total Tenant Services	\$153,291	\$62,089	\$20,828	\$0	\$0	\$236,208	\$0	\$236,208
93100 Water	\$119,066		\$316		\$1,316	\$120,698		\$120,698
93200 Electricity	\$275,148		\$9,328		\$2,253	\$286,729		\$286,729
93300 Gas	\$100,598		\$2,765		\$1,461	\$104,764		\$104,764
93400 Fuel								
93500 Labor								
93600 Sewer	\$191,155		\$405		\$2,366	\$193,926		\$193,926
93700 Employee Benefit Contributions - Utilities								
93800 Other Utilities Expense								
93900 Total Utilities	\$685,907	\$0	\$12,814	\$0	\$7,396	\$706,117	\$0	\$706,117
94100 Ordinary Maintenance and Operations - Labor	\$443,774		\$475		\$1,354	\$445,603		\$445,603
94200 Ordinary Maintenance and Operations - Materials and Other	\$265,907		\$3,569		\$12,380	\$281,856		\$281,856
94300 Ordinary Maintenance and Operations Contracts	\$430,073		\$10,066		\$10,466	\$450,599		\$450,599
94500 Employee Benefit Contributions - Ordinary Maintenance	\$184,847		\$99		\$581	\$185,527		\$185,527
94000 Total Maintenance	\$1,324,601	\$0	\$14,209	\$0	\$24,771	\$1,363,581	\$0	\$1,363,581
95100 Protective Services - Labor	\$39,986					\$39,986		\$39,986
95200 Protective Services - Other Contract Costs	\$21,033		\$758		\$1,223	\$23,014		\$23,014
95300 Protective Services - Other								
95500 Employee Benefit Contributions - Protective Services								
95000 Total Protective Services	\$61,019	\$0	\$758	\$0	\$1,223	\$63,000	\$0	\$63,000
96110 Property Insurance	\$80,430		\$3,023		\$1,616	\$85,069		\$85,069
96120 Liability Insurance	\$21,735		\$3,216		\$2,729	\$27,680		\$27,680
96130 Workers Compensation	\$13,176		\$3,558		\$8,616	\$25,350		\$25,350
96140 All Other Insurance	\$8,931		\$901		\$5,269	\$15,101		\$15,101
96100 Total Insurance Premiums	\$124,272	\$0	\$10,698	\$0	\$18,230	\$153,200	\$0	\$153,200
96200 Other General Expenses	\$4,288		\$236		\$958	\$5,482		\$5,482
96210 Compensated Absences	\$-2,225		\$4,272		\$1,245	\$3,292		\$3,292
96300 Payments in Lieu of Taxes	\$15,288					\$15,288		\$15,288
96400 Bad debt - Tenant Rents	\$22,297					\$22,297		\$22,297
96500 Bad debt - Mortgages								
96600 Bad debt - Other								
96800 Severance Expense								
96900 Total Other General Expenses	\$39,648	\$0	\$4,508	\$0	\$2,203	\$46,359	\$0	\$46,359
96710 Interest of Mortgage (or Bonds) Payable								
96720 Interest on Notes Payable (Short and Long Term)								
96730 Amortization of Bond Issue Costs								
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$3,476,412	\$63,095	\$393,793	\$186	\$638,431	\$4,571,917	-\$688,280	\$3,883,637
97000 Excess of Operating Revenue over Operating Expenses	\$282,066	\$0	\$3,028,524	\$63	\$27,671	\$3,338,344	\$0	\$3,338,344
97100 Extraordinary Maintenance								
97200 Casualty Losses - Non-capitalized	\$10,781				\$500	\$11,281		\$11,281
97300 Housing Assistance Payments			\$2,960,132			\$2,960,132		\$2,960,132

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>ANNUAL CONTRIBUTION CONTRACT</u>	<u>PROGRAM AND ASSISTANCE TYPE</u>	<u>CFDA NUMBER</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
<u>U. S. DEPARTMENT OF HUD</u>				
C-941	Low Income Public Housing	14.850	\$ 2,019,729	\$ 2,019,729
C-941	Resident Opportunity and Supportive Services	14.870	200,300	63,095
C-2034	Section 8 Housing Choice Voucher	14.871	3,352,854	3,352,854
C-941	Capital Fund Program	14.872	<u>2,274,439</u>	<u>855,964</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 7,847,322</u>	<u>\$ 6,291,642</u>

Notes to Schedule of Expenditures of Federal Awards:

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting as described in Note A to the Financial Statements.

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*

Independent Auditor's Report

Board of Commissioners
Housing Authority of the City of Kokomo
P.O.Box 1207
Kokomo, Indiana 46903-1207

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of Kokomo, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Kokomo's basic financial statements and have issued my report thereon dated July 30, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Housing Authority of the City of Kokomo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Kokomo's internal control. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority of the City of Kokomo's internal control.

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 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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Kokomo's financial statements are free from 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*.

Purpose Of This Report

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



Certified Public Accountant

Fredericksburg, Indiana
July 30, 2013

Jean Sickels

Certified Public Accountant

8518 S Kays Chapel Rd
Fredericksburg, IN 47120

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Kokomo
P.O. Box 1207
Kokomo, Indiana 46903-1207

Report on Compliance for Each Major Federal Program

I have audited the Housing Authority of the City of Kokomo's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of Kokomo's major federal programs for the year ended December 31, 2012. The Housing Authority of the City of Kokomo's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance with each of the Housing Authority of the City of Kokomo's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with the 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 Kokomo'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 on compliance for each major federal program. However, my audit does not provide a legal determination of the Housing Authority of the City of Kokomo's compliance.

Opinion on Each Major Federal Program

In my opinion, the Housing Authority of the City of Kokomo, complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Housing Authority of the City of Kokomo is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing my audit of the financial statements, I considered the Housing Authority of the City of Kokomo's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of

expressing my opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority of the City of Kokomo's internal control over compliance.

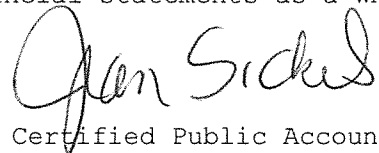
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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 material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

I have audited the financial statements of the Housing Authority of the City of Kokomo as of and for the year ended December 31, 2012, and have issued my report thereon dated July 30, 2013. My audit was conducted for the purpose of forming an opinion on the Authority's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis as required by the OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountant

Fredericksburg, Indiana
July 30, 2013

HOUSING AUTHORITY OF THE CITY OF KOKOMO
Kokomo, Indiana

DECEMBER 31, 2011

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 deficiency identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes X no

FEDERAL AWARDS

Internal control over major programs:

~ Material weakness(es) identified? yes X no

~ Significant deficiency identified that are not considered to be material weakness(es)? yes X none reported

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

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

Identification of major programs:

CFDA Number
14.871

Name of Federal Program
Housing Choice Vouchers

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

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no Financial Statement Findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no Federal Award Findings.