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April 5, 2016

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

We have reviewed the audit report prepared by Goldie Roberts, CPA, Independent Public Accountant, for the period January 1, 2010 to December 31, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Kendallville Housing Authority, as of December 31, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE

AUDITED FINANCIAL STATEMENTS

Kendallville, Indiana

December 31, 2010

Jean Sickels

Certified Public Accountant

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HOUSING AUTHORITY
OF THE
CITY OF KENDALLVILLE

Kendallville, Indiana
DECEMBER 31, 2010

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Jean Sickels

Certified Public Accountant

8518 S Kays Chapel Road
Fredericksburg, Indiana 47120

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Housing Authority of The City of Kendallville ("the Authority") as of and for the year ended December 31, 2010 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 Housing Authority of The City of Kendallville as of December 31, 2010, 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 June 29, 2012 on my consideration of the Housing Authority of The City of Kendallville'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 v, 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 Housing Authority of The City of Kendallville. 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
June 29, 2012

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2010

This section of the Housing Authority of the City of Kendallville, Indiana's (Authority) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on December 31, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

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

- The term "net assets" refers to the difference between assets and liabilities. The Authority's total net assets as of December 31, 2010 were \$2,483,492. The net assets increased by \$88,253, an increase of 3.7% over the prior year.
- Revenues for the Authority were \$870,496 for the year ended December 31, 2010. This was an increase of \$94,833 or 12.2% over the prior year.
- Expenses for the Authority were \$766,797 for the year ended December 31, 2010. This was an increase of \$62,986 or 8.9% over the prior year.
- Tenant revenue for the Authority was \$370,309 for the year ended December 31, 2010, an increase of \$5,083 or 1.4% over the prior year. HUD operating grants for the Authority was \$194,599 for the year ended December 31, 2010. This was a decrease of \$93,012 or 32.3% from the prior year. HUD capital grants were \$309,132 for the year ended December 31, 2010. This was an increase of \$206,681 or 201.7% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2010
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Required Financial Statements

The financial statements of the Housing Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

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

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, 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.

Notes to the Financial Statements

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

HUD Reporting

HUD has established *Uniform Financial Reporting Standards* that require Housing Authority's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2010 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table below, assets exceeded liabilities by \$2,483,492 at the close of the year ended December 31, 2010, up from \$2,395,239 in fiscal year 2009. The increase in net assets of \$88,253 was due to the reasons noted below.

**HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

December 31, 2010

(Continued)

FINANCIAL ANALYSIS (CONTINUED)

- Current assets include cash, receivables, prepaid expenses, and inventory. Of the \$56,033 decrease in this category, cash decreased \$66,761, receivables increased \$32,847, prepaid expenses decreased \$21,838, and inventory decreased \$281.
- Other assets include investment in joint ventures and balance did not change from FY 2009.
- Capital assets increased \$141,104 because current year capital asset additions exceeded current year depreciation. Change in capital assets is explained in section titled "Capital Assets" of this analysis.
- Current liabilities decreased \$3,182 from FY 2009 primarily due to a \$7,282 decrease in deferred revenue.

CONDENSED STATEMENTS OF NET ASSETS

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 732,245	\$ 788,278	\$ (56,033)	-7.1%
Other assets	40,349	40,349	-	0.0%
Capital assets, net	1,755,833	1,614,729	141,104	8.7%
TOTAL ASSETS	<u>\$ 2,528,427</u>	<u>\$ 2,443,356</u>	<u>\$ 85,071</u>	3.5%
LIABILITIES				
Current liabilities	\$ 44,935	\$ 48,117	\$ (3,182)	-6.6%
TOTAL LIABILITIES	<u>\$ 44,935</u>	<u>\$ 48,117</u>	<u>\$ (3,182)</u>	-6.6%
NET ASSETS				
Invested in capital assets	1,755,833	1,614,729	141,104	8.7%
Restricted	47,826	41,133	6,693	16.3%
Unrestricted	679,833	739,377	(59,544)	-8.1%
TOTAL NET ASSETS	<u>\$ 2,483,492</u>	<u>\$ 2,395,239</u>	<u>\$ 88,253</u>	3.7%

The unrestricted net assets were \$679,833 as of December 31, 2010. This amount may be used to meet the Authority's ongoing obligations. The Authority has sufficient funds to meet requirements for cash outlays for next fiscal year. The restricted net assets were \$47,826 as of December 31, 2010 and are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

December 31, 2010

(Continued)

FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the Authority's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Authority uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page, total revenues increased \$94,833 due to the reasons noted below.

- Tenant revenue increased \$5,083 or 1.4% from FY 2009.
- Of the \$93,012 decrease in operating grants, public housing operating subsidy decreased \$28,594, housing choice voucher assistance decreased \$14,089, and capital fund grants used for operating expenditures decreased \$50,329.
- Interest earnings decreased \$19,509 from FY 2009.
- Capital grants increased \$206,681 from FY 2009. The Authority is allocated capital fund grants each year as determined by HUD and the amount remains relatively consistent from year to year. HUD capital grant revenues during the year will depend upon timing of projects as outlined in the HUD approved capital grant budget.
- Other revenues increased \$15 from FY 2009.
- The Authority had a loss on disposal of capital assets of \$4,425 in FY 2010.

Total expenses increased \$62,986 due to the reasons noted below.

- Administrative expense decreased \$6,149 or 3.6% mainly due to a decrease in administrative wages of \$9,027 or 9.3%.
- Tenant services increased \$363 from FY 2009.
- Of the \$3,627 decrease in utilities, water decreased \$3,230 or 13.3%, electricity increased \$1,554 or 3.6%, and gas decreased \$1,951 or 8.5%.
- Ordinary maintenance increased \$10,873 or 6.8% primarily due to a \$7,511 increase in maintenance materials purchased during the current fiscal year.
- General expenses were higher in FY 2010 mostly due to a \$76,085 tax levy.

**HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2010
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
REVENUES				
Operating - non-operating - capital contributions:				
Tenant revenue	\$ 370,309	\$ 365,226	\$ 5,083	1.4%
HUD PHA operating grants	194,599	287,611	(93,012)	-32.3%
Interest & investment earnings	271	19,780	(19,509)	-98.6%
HUD PHA capital grants	309,132	102,451	206,681	201.7%
Other revenues	610	595	15	2.5%
Gain (loss) on sale of capital assets	<u>(4,425)</u>	<u>-</u>	<u>(4,425)</u>	-100.0%
TOTAL REVENUES	<u>870,496</u>	<u>775,663</u>	<u>94,833</u>	12.2%
EXPENSES				
Administrative	162,808	168,957	(6,149)	-3.6%
Tenant services	3,074	2,711	363	13.4%
Utilities	87,461	91,088	(3,627)	-4.0%
Ordinary maintenance	169,856	158,983	10,873	6.8%
General expenses	119,448	33,074	86,374	261.2%
Depreciation	204,188	225,044	(20,856)	-9.3%
Housing assistance payments	19,962	23,954	(3,992)	-16.7%
TOTAL EXPENSES	<u>766,797</u>	<u>703,811</u>	<u>62,986</u>	8.9%
EXCESS BEFORE TRANSFERS	103,699	71,852	31,847	
TRANSFERS				
Operating transfers to component unit	<u>15,446</u>	<u>-</u>	<u>15,446</u>	
CHANGE IN NET ASSETS	88,253	71,852	16,401	
NET ASSETS - BEG OF YEAR	<u>2,395,239</u>	<u>2,323,387</u>	<u>71,852</u>	
NET ASSETS - END OF YEAR	<u>\$ 2,483,492</u>	<u>\$ 2,395,239</u>	<u>\$ 88,253</u>	

- The Authority had a \$20,856 or 9.3% decrease in Depreciation which is the write-off of capital assets over their estimated useful life.
- Housing assistance payments decreased \$3,992 or 16.7% from FY 2009.

The Low Rent Public Housing occupancy rate for fiscal year December 31, 2010 was 99.4%. The Section 8 lease up rate for fiscal year December 31, 2010 was 94.4%.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
KENDALLVILLE, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
December 31, 2010
(Continued)

CAPITAL ASSETS

Capital Assets - The Housing Authority of the City of Kendallville, Indiana's investment in capital assets, as of December 31, 2010 amounts to \$1,755,833 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment, construction in progress, and accumulated depreciation.

The total increase in the Authority's investment in capital assets for the current fiscal year was 8.7% in terms of net book value. Actual expenditures to purchase or construct capital assets from revenues were \$349,717 for the year. The Authority has various contract commitments with contractors for the implementation of the HUD capital grants as outlined by the HUD approved Capital Grant Budget. Depreciation charges for the year totaled \$204,188. Additional information on the Authority's capital assets can be found in the notes to the financial statements.

	Beginning	Additions	Depreciation	Disposal	Ending
Capital assets	\$1,614,729	\$349,717	\$(204,188)	\$(4,425)	\$1,755,833

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Authority considered many factors when approving the fiscal year 2011 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on occupied units and approved vacancies, utility consumption and rates, approved add-ons, formula income, and transition funding. The amount of funding is also established and approved by HUD. Formula income is based on rental income from the Authority's rent roll records for the period specified by HUD. Operating expenses are expected to increase by the economy's inflation rate.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to John Sisson, Executive Director, Housing Authority of the City of Kendallville, 240 Angling Road, Kendallville, Indiana 81120, telephone number (260) 347-1091.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

ASSETS

Current Assets

Cash and cash equivalents	\$	511,128
Restricted cash and cash equivalents		69,418
Accounts receivable, net		55,050
Investments		88,898
Prepaid expenses		4,992
Inventory		2,759
Total Current Assets		<u><u>732,245</u></u>

Capital Assets

Land and other nondepreciable assets		399,972
Depreciable capital assets, net		1,355,861
Total Capital Assets		<u><u>1,755,833</u></u>

Noncurrent Assets

Investments in joint ventures		<u>40,349</u>
Total Noncurrent Assets		<u><u>40,349</u></u>

Total Assets

2,528,427

LIABILITIES

Current liabilities

Accounts payable		12,867
Accrued liabilities		2,392
Deferred revenue		448
Payable from restricted cash and cash equivalents:		
Tenants security deposits		<u>29,228</u>
Total Current Liabilities		<u><u>44,935</u></u>

Net Assets

Invested in capital assets		1,755,833
Restricted		47,826
Unrestricted		<u>679,833</u>
Total Net Assets	\$	<u><u>2,483,492</u></u>

The accompanying notes are an integral part of these financial statements

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2010

OPERATING REVENUES

Rental income	\$ 370,309
Other income	610

TOTAL OPERATING REVENUE	370,919
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OPERATING EXPENSES

Administrative	162,808
Tenant services	3,074
Utilities	87,461
Ordinary maintenance and operation	169,856
General expense	119,448
Housing assistance payments	19,962
Depreciation expense	204,188

TOTAL OPERATING EXPENSES	766,797
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OPERATING INCOME (LOSS)	(395,878)
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NONOPERATING REVENUES (EXPENSES)

Federal operating grants	194,599
Interest income	271
Net change in the fair value of investments	(15,446)
Gain on disposal of capital assets	(4,425)

TOTAL NONOPERATING REVENUES	174,999
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Net income before capital contributions	(220,879)
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CAPITAL CONTRIBUTIONS	309,132
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CHANGE IN NET ASSETS	88,253
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TOTAL NET ASSETS - BEGINNING OF YEAR	2,395,239
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TOTAL NET ASSETS - END OF YEAR	\$ 2,483,492
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The accompanying notes are an integral part of these financial statements

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and other deposits	\$	330,790
Payments to vendors		(291,777)
Payments to land lords		(19,962)
Payments to employees		(224,651)
Net Cash Used by Operating Activities		<u>(205,600)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal operating grants received		<u>194,599</u>
Net Cash From Noncapital Financing Activities		<u>194,599</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants received		309,132
Loss on disposal of capital assets		(4,425)
Purchase of capital assets		<u>(345,292)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities		<u>(40,585)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income		271
Investment in joint ventures		0
Net decrease in the fair value of investments		<u>(15,446)</u>
Net Cash From Investing Activities		<u>(15,175)</u>

Net Increase (Decrease) in Cash and Cash Equivalents (66,761)

Cash - Beginning of year 647,307

Cash - End of year \$ 580,546

Reconciliation of Cash
Unrestricted \$ 511,128
Restricted 69,418
\$ 580,546

Continued

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

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

Operating income (loss)	\$	(395,878)
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation		204,188
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		(32,847)
Prepaid expenses		21,838
Inventory		281
Increase (Decrease) in:		
Accounts payable		7,271
Accrued liabilities		(3,171)
Deferred revenue		(7,282)
Net Cash Flows Provided (Used) by Operating Activities	\$	<u>(205,600)</u>

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 - Summary of Significant Accounting Policies and Organization:

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

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

Reporting Entity:

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

Activities of the Housing Authority:

At December 31, 2010, the Housing Authority had 133 units in management and was administering other programs as listed below:

<u>Management</u>	
Low-Income Public Housing	118
<u>Lower Income Housing Assistance Program</u>	
Section 8 Housing Choice Vouchers	<u>15</u>
TOTAL ALL PROGRAMS	<u>133</u>
<u>Other Programs</u>	
Capital Fund Programs	
Business Activities	
Component Units	

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

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

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

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

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

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

Restricted: Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service. The Authority has restricted funds totaling \$40,190 that represents excess HAP grant funding provided by the Department of Housing & Urban Development for the sole purpose of providing assistance payments to eligible individuals through the Housing Choice Voucher Program. This amount represents the total amount of excess Authority to retain these funds for future housing assistance payments. The requirements imposed by HUD represent a legally enforceable requirement upon this program.

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

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

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

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

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

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

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

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

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

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

Capital Assets:

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

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

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

Capital Assets: (Continued)

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

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

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

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

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

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

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

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

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

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Continued)

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

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

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

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

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

NOTE 2 -Deposits, Cash and Cash Equivalents 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 two years at time of purchase. At December 31, 2010, the Authority's deposits and investments were not limited and all of which are either available on demand or have maturities of less than two years.

At December 31, 2010, the carrying amount of the Authority's deposits was \$669,444. The deposits are either covered by federal depository insurance, by collateral held by the Authority's agent in the Authority's name or by the Federal Reserve Banks acting as third party agents or by a collateralization agreement. Restricted cash consists of tenant security deposits and Section 8 HAP payments.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Continued)

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

Deposits consist of the following:

Checking accounts	\$ 408,054
Certificates of Deposit	<u>172,492</u>
 Total	 <u>\$ 580,546</u>

Investments:

The Authority's investments are governed by debt covenants and a Board adopted policy. Allowable investments include: negotiable direct obligations, or the principal and interest of which are unconditionally guaranteed by the United States government; bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States agencies, provided such obligations are backed by the full faith and credit of the United States Government agencies which are not full faith and credit agencies; repurchase agreements; bankers' acceptances; commercial paper; state and/or local government taxable and tax-exempt debt; and fixed income mutual funds.

The Indiana Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Indiana Investment Board. The SIF is not registered with the Securities and Exchange Commission (SEC), but operates under the statutory authority of Indiana Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the rights withdraw their funds in total on one day's notice. At December 31, 2010, the market value of the LGIP's assets were substantially equal to the Authority's share as reported above.

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Maturity Date</u>	<u>Callable</u>
Investments:				
LGIP	\$ 88,898	NA	Various	NO
 Total Investments	 \$ 88,898			

Total deposits and Investments \$669,444

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

NOTE 3 -Accounts Receivable:

Accounts receivables at December 31, 2010 consist of the following:

HUD	\$ 54,089
Accounts receivable tenants	274
Accrued interest receivable	687
Former Executive Director, net of allowance of \$333,999	<u>0</u>
See NOTE 14	
 Total	 <u>\$ 55,050</u>

NOTE 4 -Prepaid Expenses:

Prepaid Expenses at December 31, 2010 consist of the following:

Prepaid insurance and other prepaid assets	<u>\$ 4,992</u>
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NOTE 5 -Inventory:

Inventory at December 31, 2010, consist of the following:

Inventory, net of allowance of \$ 400	<u>\$ 2,759</u>
---------------------------------------	-----------------

NOTE 6 -Capital Assets:

	Beginning Balance <u>12/31/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	Ending Balance <u>12/31/10</u>
Capital assets, not being depreciated:					
Land	\$ 388,549	\$ 0	\$ (0)	\$ 0	\$ 388,549
Construction in Progress	<u>58,150</u>	<u>309,132</u>	<u>0</u>	<u>(355,869)</u>	<u>11,423</u>
Total Capital Assets, Not being depreciated	<u>446,709</u>	<u>309,132</u>	<u>(0)</u>	<u>(355,869)</u>	<u>399,972</u>
Capital Assets, being depreciated:					
Buildings & Improvements	5,096,305	13,473	(0)	104,297	5,214,075
Furniture, Equipment & Machinery	<u>112,923</u>	<u>0</u>	<u>(0)</u>	<u>251,572</u>	<u>364,495</u>
Total Capital Assets, being depreciated	<u>5,209,228</u>	<u>13,473</u>	<u>(0)</u>	<u>355,869</u>	<u>5,578,570</u>
Less Accumulated Depreciation for:					
Buildings & Improvements	(3,721,613)	(195,430)	0	0	(3,917,043)
Furniture, Equipment and Machinery	<u>(319,595)</u>	<u>(8,758)</u>	<u>22,687</u>	<u>0</u>	<u>(305,666)</u>
Total Accumulated Depreciation:	<u>(4,041,208)</u>	<u>(204,188)</u>	<u>22,687</u>	<u>0</u>	<u>(4,222,709)</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

NOTE 6 - Capital Assets: (Continued)

Total Capital Assets, being depreciated, net	1,168,020	(190,715)	22,687	355,869	1,355,861
Capital Assets, Net	<u>\$ 1,614,729</u>	<u>\$ 118,417</u>	<u>\$ 22,687</u>	<u>\$ (0)</u>	<u>\$ 1,755,833</u>

Major construction renovation through the Capital Fund Program costs of \$86,482 are yet to be expended under the current programs. HUD has approved funding for the above amount. Depreciation expense for the year ended December 31, 2010, was \$208,188.

NOTE 7 - Investments in Partnerships:

Investments at December 31, 2010 consist of the following:

Partnership Kendallville limited partnership.	<u>\$ 40,349</u>
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The Housing Authority's nonprofit organization Kendallville Affordable Housing, Inc, entered into a limited partnership (Lamplighter II, Limited Partnership) agreement for the purpose of constructing and managing a 24-unit complex of one and two bedroom units. The partnership has received tax credits from the State of Indiana. The Nonprofit organization holds a 1% general partnership interest, with the remaining 99% limited partnership interests held by unrelated investors. The partnership interest is recorded on the equity basis.

NOTE 8 - Accounts Payable:

Accounts payable at December 31, 2010 consist of the following:

Vendors' Accounts Payable	\$ 12,676
Accounts payable - HUD	<u>191</u>
Total	<u>\$ 12,867</u>

NOTE 9 - Accrued Liabilities:

Accrued liabilities at December 31, 2010, consist of the following:

Accrued wages	<u>\$ 2,392</u>
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NOTE 10 - Deferred Revenue:

Deferred revenue at December 31, 2010 consist of the following:

Prepaid rent	<u>\$ 448</u>
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NOTE 11 - Economic Dependency:

The Authority receives approximately 58% of its revenues from the U.S. Department of Housing and Urban Development (HUD). If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

NOTE 12 - Pension Plan:

Plan Description

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

The Authority's contributions were calculated using the base salary amount of \$167,551. During the year ended December 31, 2010, the Authority's required and actual contributions amounted to \$8,445, which was 5.25% of its current-year covered payroll in the amount of \$160,857.

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

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

Basis of Accounting

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

Valuation of Investments

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

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

(Continued)

NOTE 13 - Commitments and Contingencies:

Litigation: At December 31, 2010, the Authority was not involved in any threatened litigation.

Examinations: The Authority is subject to possible examinations made by federal and state authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the Authority in the current and prior years. There was one examination concerning the year ended December 31, 2010. The Indiana Board of Accounts identified fraudulent transactions. The audit identified over \$566,000 in questioned costs from the period January 1, 1999 to June 30, 2006.

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

Construction Projects: There are certain major construction projects in progress at December 31, 2010. These include modernizing rental units at the project sites. These projects are being funded by HUD. Funds are requested periodically as the cost is incurred. These costs will be paid by grants committed to the Authority by HUD.

NOTE 14 - Subsequent events:

In June 2006, the former Executive Director wrote a letter to the Kendallville Housing Authority Board where she admitted to irregularities in the financial records. She pled guilty to the charge of Theft, Class C Felony and agreed to serve a prison sentence of 8 years in the Indiana Department of Corrections. The Authority continues to have pending questioned costs due to these irregularities from previous years. The former Executive Director still has an accounts receivable that is recorded net of an allowance of \$327,706 for financial statement reporting purposes.

SUPPLEMENTAL FINANCIAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM NET ASSETS

DECEMBER 31, 2010

	Annual Contributions Contracts		
	C-2000	IN036	C-2000
	Low	Section 8	
	Income	Housing	
	Public	Choice	Capital
	Housing	Vouchers	Fund
ASSETS			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 183,855	\$ 0	\$ 0
Restricted cash and cash equivalents	29,228	40,190	0
Accounts receivable, net	54,363	0	0
Investments	0	0	0
Prepaid expenses	4,992	0	0
Inventory	2,759	0	0
Total Current Assets	275,197	40,190	0
<u>Capital Assets</u>			
Land and other nondepreciable assets	399,972	0	0
Depreciable capital assets, net	1,355,861	0	0
Total Capital Assets	1,755,833	0	0
<u>Noncurrent Assets</u>			
Investment in joint ventures	0	0	0
Total Noncurrent Assets	0	0	0
Total Assets	2,031,030	40,190	0
LIABILITIES			
<u>Current liabilities</u>			
Accounts payable	12,676	191	0
Accrued liabilities	2,392	0	0
Deferred revenue	448	0	0
Payable from restricted cash and and cash equivalents:			
Tenants security deposits	29,228	0	0
Total Current Liabilities	44,744	191	0
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,755,833	0	0
Restricted	0	47,826	0
Unrestricted	230,453	(7,827)	0
Total Net Assets	\$ 1,986,286	\$ 39,999	\$ 0

Housing Development Corporation	Total
\$ 327,273	\$ 511,128
0	69,418
687	55,050
88,898	88,898
0	4,992
0	2,759
<u>416,858</u>	<u>732,245</u>
0	399,972
0	1,355,861
0	<u>1,755,833</u>
40,349	40,349
<u>40,349</u>	<u>40,349</u>
<u>457,207</u>	<u>2,528,427</u>
0	12,867
0	2,392
0	448
0	29,228
0	<u>44,935</u>
0	1,755,833
0	47,826
457,207	679,833
<u>\$ 457,207</u>	<u>\$ 2,483,492</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

COMBINING SCHEDULE OF PROGRAM REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Annual Contributions Contracts		
	C-2000	IN036	C-2000
	Low Income Public Housing	Section 8 Housing Choice Vouchers	Capital Fund
<u>OPERATING REVENUES</u>			
Rental income	\$ 370,309	\$ 0	\$ 0
Other income	610	0	0
TOTAL OPERATING REVENUE	370,919	0	0
<u>OPERATING EXPENSES</u>			
Administrative	161,286	1,522	0
Tenant services	3,074	0	0
Utilities	87,461	0	0
Ordinary maintenance and operation	169,856	0	0
General expense	119,448	0	0
Housing assistance payments	0	19,962	0
Depreciation expense	204,188	0	0
TOTAL OPERATING EXPENSES	745,313	21,484	0
OPERATING INCOME (LOSS)	(374,394)	(21,484)	0
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Federal operating grants	143,515	29,340	21,744
Interest income	268	3	0
Net change in the fair value of investment	(15,446)	0	0
Gain on disposal of capital assets	(4,425)	0	0
TOTAL NONOPERATING REVENUES	123,912	29,343	21,744
Net income before capital contributions	(250,482)	7,859	21,744
CAPITAL CONTRIBUTIONS	0	0	309,132
CHANGE IN NET ASSETS	(250,482)	7,859	330,876
TOTAL NET ASSETS - BEGINNING OF YEAR, as originally stated	2,174,052	32,140	0
Prior period adjustments	62,716	0	(330,876)
TOTAL NET ASSETS - BEGINNING OF YEAR, as restated	2,236,768	32,140	(330,876)
TOTAL NET ASSETS - END OF YEAR	\$ 1,986,286	\$ 39,999	\$ 0

Housing
Development
Corporation

Total

\$	0	\$	370,309
	0		610
	<u>0</u>		<u>370,919</u>
	0		162,808
	0		3,074
	0		87,461
	0		169,856
	0		119,448
	0		19,962
	<u>0</u>		<u>204,188</u>
	<u>0</u>		<u>766,797</u>
	<u>0</u>		<u>(395,878)</u>
	0		194,599
	0		271
	0		(15,446)
	<u>0</u>		<u>(4,425)</u>
	<u>0</u>		<u>174,999</u>
	<u>0</u>		<u>(220,879)</u>
	<u>0</u>		<u>309,132</u>
	<u>0</u>		<u>88,253</u>
	189,047		2,395,239
	<u>268,160</u>		<u>0</u>
	<u>457,207</u>		<u>2,395,239</u>
\$	<u>457,207</u>	\$	<u>2,483,492</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

STATEMENT AND CERTIFICATION OF ACTUAL CAPITAL FUND GRANT COSTS - COMPLETED
FOR THE YEAR ENDED DECEMBER 31, 2010

	CFP <u>501-06</u>	CFP <u>501-08</u>	CFP <u>501-09</u>	ARRA <u>501-09</u>
1. The Capital Fund Grant Costs are as follows:				
Funds Approved	\$ 137,183	\$ 139,935	\$ 128,167	\$ 177,130
Funds Expended	<u>137,183</u>	<u>139,935</u>	<u>128,167</u>	<u>177,130</u>
Excess (Deficiency) of funds approved	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Funds Advanced	\$ 137,183	\$ 139,935	\$ 128,167	\$ 177,130
Funds Expended	<u>137,183</u>	<u>139,935</u>	<u>128,167</u>	<u>177,130</u>
Excess (Deficiency) of funds advanced	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

1. Cost additions totaling 327,066 were incurred for the year and accordingly were audited by Jean Sickels, CPA.
2. The distribution of costs by project as shown on the Final Statement of Capital Fund Grant Costs on the above Phases, accompanying the Actual Capital Fund Grant Costs Certificates submitted to HUD are in agreement with the Authority records.
3. All capital fund grant work in connection with the Project has been completed.
4. All liabilities have been paid and there are no undischarged mechanics', laborers', contractors', or material-mens' 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.
5. There were no budget overruns.

Housing Authority of the City of Kendallville (IN036)

KENDALLVILLE, IN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2010

	Project Total	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	6 Component Units	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$183,855			\$327,273	\$511,128		\$511,128
112 Cash - Restricted - Modernization and Development							
113 Cash - Other Restricted		\$40,100			\$40,100		\$40,100
114 Cash - Tenant Security Deposits	\$29,228				\$29,228		\$29,228
116 Cash - Restricted for Payment of Current Liabilities							
100 Total Cash	\$213,083	\$40,100	\$0	\$327,273	\$560,549	\$0	\$560,549
121 Accounts Receivable - PHA Projects							
122 Accounts Receivable - HUD Other Projects	\$54,089				\$54,089		\$54,089
124 Accounts Receivable - Other Government							
125 Accounts Receivable - Miscellaneous	\$327,708			\$0,283	\$333,000		\$333,000
126 Accounts Receivable - Tenants	\$274				\$274		\$274
128.1 Allowance for Doubtful Accounts - Tenants	\$0				\$0		\$0
128.2 Allowance for Doubtful Accounts - Other	-\$327,708			-\$0,283	-\$333,000		-\$333,000
127 Notes, Loans, & Mortgages Receivable - Current							
128 Fraud Recovery							
128.1 Allowance for Doubtful Accounts - Fraud							
129 Accrued Interest Receivable				\$887	\$887		\$887
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$54,363	\$0	\$0	\$887	\$55,050	\$0	\$55,050
131 Investments - Unrestricted				\$88,888	\$88,888		\$88,888
132 Investments - Restricted							
135 Investments - Restricted for Payment of Current Liability							
142 Prepaid Expenses and Other Assets	\$4,892				\$4,892		\$4,892
143 Inventories	\$3,150				\$3,150		\$3,150
143.1 Allowance for Obsolete Inventories	-\$400				-\$400		-\$400
144 Inter Program Due From							
145 Assets Held for Sale							
150 Total Current Assets	\$275,197	\$40,100	\$0	\$418,658	\$732,245	\$0	\$732,245
161 Land	\$388,549				\$388,549		\$388,549
162 Buildings	\$5,214,075				\$5,214,075		\$5,214,075
163 Furniture, Equipment & Machinery - Dwellings	\$124,209				\$124,209		\$124,209
164 Furniture, Equipment & Machinery - Administration	\$221,340	\$5,270		\$13,870	\$240,280		\$240,280
165 Leasehold Improvements							
166 Accumulated Depreciation	-\$4,203,709	-\$5,270		-\$13,870	-\$4,222,709		-\$4,222,709
167 Construction In Progress	\$11,423				\$11,423		\$11,423
168 Infrastructure							
160 Total Capital Assets, Net of Accumulated Depreciation	\$1,755,833	\$0	\$0	\$0	\$1,755,833	\$0	\$1,755,833
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				\$40,349	\$40,349		\$40,349
180 Total Non-Current Assets	\$1,755,833	\$0	\$0	\$40,349	\$1,796,182	\$0	\$1,796,182
180 Total Assets	\$2,031,030	\$40,100	\$0	\$457,207	\$2,628,427	\$0	\$2,628,427
311 Bank Overdraft							
312 Accounts Payable <= 90 Days	\$12,878				\$12,878		\$12,878
313 Accounts Payable >90 Days Past Due							
321 Accrued Wage/Payroll Taxes Payable	\$2,392				\$2,392		\$2,392
322 Accrued Compensated Absences - Current Portion							
324 Accrued Contingency Liability							
325 Accrued Interest Payable							
331 Accounts Payable - HUD PHA Programs		\$101			\$101		\$101
332 Account Payable - PHA Projects							
333 Accounts Payable - Other Government							
341 Tenant Security Deposits	\$29,228				\$29,228		\$29,228
342 Deferred Revenues	\$448				\$448		\$448
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds							
344 Current Portion of Long-term Debt - Operating Borrowings							
345 Other Current Liabilities							
346 Accrued Liabilities - Other							
347 Inter Program - Due To							
348 Loan Liability - Current							
310 Total Current Liabilities	\$44,744	\$101	\$0	\$0	\$44,935	\$0	\$44,935

351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue							
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							
356 FASB 5 Liabilities							
357 Accrued Pension and OPEB Liabilities							
350 Total Non-Current Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0
300 Total Liabilities	\$44,744	\$191	\$0	\$0	\$44,935	\$0	\$44,935
508.1 Invested in Capital Assets, Net of Related Debt	\$1,755,833				\$1,755,833		\$1,755,833
509.2 Fund Balance Reserved							
511.2 Unreserved, Designated Fund Balance							
511.1 Restricted Net Assets		\$47,826			\$47,826		\$47,826
512.1 Unrestricted Net Assets	\$230,453	-\$7,827	\$0	\$457,207	\$679,833		\$679,833
512.2 Unreserved, Undesignated Fund Balance							
513 Total Equity/Net Assets	\$1,086,286	\$39,000	\$0	\$457,207	\$2,483,402	\$0	\$2,483,402
000 Total Liabilities and Equity/Net Assets	\$2,031,030	\$40,100	\$0	\$457,207	\$2,528,427	\$0	\$2,528,427

Housing Authority of the City of Kendallville (IN036)
KENDALLVILLE, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2010

	Project Total	14,871 Housing Choice Vouchers	14,885 Formula Capital Fund Stimulus Grant	6 Component Units	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$357,101				\$357,101		\$357,101
70400 Tenant Revenue - Other	\$13,208				\$13,208		\$13,208
70500 Total Tenant Revenue	\$370,309	\$0	\$0	\$0	\$370,309	\$0	\$370,309
70800 HUD PHA Operating Grants	\$194,569	\$29,340			\$194,569		\$194,569
70910 Capital Grants	\$290,533		\$78,568		\$309,132		\$309,132
70710 Management Fee							
70720 Asset Management Fee							
70730 Book Keeping Fee							
70740 Front Line Service Fee							
70750 Other Fees							
70700 Total Fee Revenue					\$0	\$0	\$0
70800 Other Government Grants							
71100 Investment Income - Unrestricted	\$288			\$0	\$288		\$288
71200 Mortgage Interest Income							
71300 Proceeds from Disposition of Assets Held for Sale							
71310 Cost of Sale of Assets							
71400 Fraud Recovery							
71500 Other Revenue	\$610				\$610		\$610
71600 Gain or Loss on Sale of Capital Assets	-\$4,425				-\$4,425		-\$4,425
72000 Investment Income - Restricted		\$3			\$3		\$3
70000 Total Revenue	\$762,654	\$29,343	\$78,568	\$0	\$870,498	\$0	\$870,498
01100 Administrative Salaries	\$88,365	\$1,200			\$87,585		\$87,585
01200 Auditing Fees	\$4,473				\$4,473		\$4,473
01300 Management Fee							
01310 Book-keeping Fee							
01400 Advertising and Marketing	\$2,800				\$2,800		\$2,800
01500 Employee Benefit Contributions - Administrative	\$29,064	\$92			\$29,066		\$29,066
01600 Office Expenses	\$11,576				\$11,576		\$11,576
01700 Legal Expense	\$4,340				\$4,340		\$4,340
01800 Travel	\$8,310				\$8,310		\$8,310
01810 Allocated Overhead							
01900 Other	\$13,788	\$280			\$14,028		\$14,028
01000 Total Operating - Administrative	\$161,286	\$1,522	\$0	\$0	\$162,808	\$0	\$162,808
02000 Asset Management Fee							
02100 Tenant Services - Salaries							
02200 Relocation Costs							
02300 Employee Benefit Contributions - Tenant Services							
02400 Tenant Services - Other	\$3,074				\$3,074		\$3,074
02500 Total Tenant Services	\$3,074	\$0	\$0	\$0	\$3,074	\$0	\$3,074
03100 Water	\$21,052				\$21,052		\$21,052
03200 Electricity	\$45,310				\$45,310		\$45,310
03300 Gas	\$21,099				\$21,099		\$21,099
03400 Fuel							
03500 Labor							
03600 Sewer							
03700 Employee Benefit Contributions - Utilities							
03800 Other Utilities Expense							
03000 Total Utilities	\$87,461	\$0	\$0	\$0	\$87,461	\$0	\$87,461
04100 Ordinary Maintenance and Operations - Labor	\$79,980				\$79,980		\$79,980
04200 Ordinary Maintenance and Operations - Materials and Other	\$24,211				\$24,211		\$24,211
04300 Ordinary Maintenance and Operations Contracts	\$38,275				\$38,275		\$38,275
04500 Employee Benefit Contributions - Ordinary Maintenance	\$27,404				\$27,404		\$27,404
04000 Total Maintenance	\$169,850	\$0	\$0	\$0	\$169,850	\$0	\$169,850
05100 Protective Services - Labor							
05200 Protective Services - Other Contract Costs							
05300 Protective Services - Other							
05500 Employee Benefit Contributions - Protective Services							
05000 Total Protective Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0

06110 Property Insurance	\$27,604				\$27,604		\$27,604
06120 Liability Insurance	\$2,654				\$2,654		\$2,654
06130 Workmen's Compensation	\$2,456				\$2,456		\$2,456
06140 All Other Insurance	\$1,032				\$1,032		\$1,032
06100 Total Insurance Premiums	\$34,730	\$0	\$0	\$0	\$34,730	\$0	\$34,730
06200 Other General Expenses	\$70,085				\$70,085		\$70,085
06210 Compensated Absences	\$8,027				\$8,027		\$8,027
06300 Payments in Lieu of Taxes							
06400 Bad debt - Tenant Rents							
06500 Bad debt - Mortgages							
06600 Bad debt - Other							
06800 Severance Expense							
06000 Total Other General Expenses	\$84,712	\$0	\$0	\$0	\$84,712	\$0	\$84,712
06710 Interest of Mortgage (or Bonds) Payable							
06720 Interest on Notes Payable (Short and Long Term)							
06730 Amortization of Bond Issue Costs							
06700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0
06900 Total Operating Expenses	\$541,125	\$1,622	\$0	\$0	\$542,947	\$0	\$542,647
07000 Excess of Operating Revenue over Operating Expenses	\$221,420	\$27,821	\$78,500	\$0	\$327,840	\$0	\$327,840
07100 Extraordinary Maintenance							
07200 Casualty Losses - Non-capitalized							
07300 Housing Assistance Payments		\$10,002			\$10,002		\$10,002
07350 HAP Portability-In							
07400 Depreciation Expense	\$204,188				\$204,188		\$204,188
07500 Fraud Losses							
07600 Capital Outlays - Governmental Funds							
07700 Debt Principal Payment - Governmental Funds							
07800 Dwelling Units Rent Expense							
09000 Total Expenses	\$745,313	\$21,444	\$0	\$0	\$766,797	\$0	\$766,797
10010 Operating Transfer In	\$33,167				\$33,167	-\$33,167	\$0
10020 Operating transfer Out	-\$33,167				-\$33,167	\$33,167	\$0
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)	-\$15,440				-\$15,440		-\$15,440
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)	-\$15,440	\$0	\$0	\$0	-\$15,440	\$0	-\$15,440
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$1,795	\$7,850	\$78,500	\$0	\$88,253	\$0	\$88,263
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$2,174,052	\$32,140	\$0	\$189,047	\$2,395,239		\$2,395,239
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	-\$160,591		-\$78,500	\$268,160	\$0		\$0
11050 Changes in Compensated Absence Balance							
11060 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		\$7,827			-\$7,827		-\$7,827
11180 Housing Assistance Payments Equity		\$47,826			\$47,826		\$47,826
11100 Unit Months Available	1416	72			1488		1488
11210 Number of Unit Months Leased	1407	68			1475		1475
11270 Excess Cash	\$177,000				\$177,000		\$177,000
11810 Land Purchases	\$0				\$0		\$0
11620 Building Purchases	\$300,132				\$300,132		\$300,132
11630 Furniture & Equipment - Dwelling Purchases	\$0				\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0				\$0		\$0
11650 Leasehold Improvements Purchases	\$0				\$0		\$0
11680 Infrastructure Purchases	\$0				\$0		\$0
13510 CFFP Debt Service Payments	\$0				\$0		\$0
13801 Replacement Housing Factor Funds	\$0				\$0		\$0

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

ANNUAL CONTRIBUTION CONTRACT	PROGRAM AND ASSISTANCE TYPE	CFDA NUMBER	AWARD	EXPENDITURES
<u>U. S. DEPARTMENT OF HUD</u>				
C-2000	Low Rent Public Housing	14.850	\$ 143,515	\$ 143,515
C-0010	Section 8 Housing Choice Voucher Program	14.871	29,340	29,340
C-2000	Public Housing Capital Fund Program	14.872	405,285	252,277
C-2000	Capital Fund Program Stimulus Program	ARRA 14.885	<u>177,130</u>	<u>78,599</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 755,270</u>	<u>\$ 503,731</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 Road

Fredericksburg, Indiana 47120

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE
AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

I have audited the financial statements of the Housing Authority of the City of Kendallville, as of and for the year ended December 31, 2010, and have issued my report thereon dated June 29, 2012, which included a disclaimer of opinion on Management's Discussion and Analysis. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Authority of the City of Kendallville's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the City of Kendallville's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority of the City of Kendallville'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 finding reference number is 2010-01. 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.

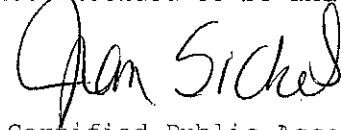
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Kendallville's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed 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 item 2010-01.

The Housing Authority of the City of Kendallville'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 Housing Authority of the City of Kendallville's response and, accordingly, I express no opinion on it.

I noted certain matters that I reported to the management of the Housing Authority of the City of Kendallville in a separate letter dated June 29, 2012.

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



Certified Public Accountant

Fredericksburg, Indiana
June 29, 2012

Jean Sickels

Certified Public Accountant

8518 S Kays Chapel Road
Fredericksburg, Indiana 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
Housing Authority of the City of Kendallville
903 6th Street
Kendallville, CO 80631

Compliance

I have audited the compliance of the Housing Authority of The City of Kendallville 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 Kendallville's major federal programs for the year ended December 31, 2010. The Housing Authority of The City of Kendallville's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of The City of Kendallville's management. My responsibility is to express an opinion on the Housing Authority of The City of Kendallville's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of The City of Kendallville's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Housing Authority of The City of Kendallville's compliance with those requirements.

In my opinion, the Housing Authority of The City of Kendallville complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Housing Authority of The City of Kendallville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Authority of The City of Kendallville's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 the Housing Authority of The City of Kendallville'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.

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



Certified Public Accountant

Fredericksburg, Indiana
June 29, 2012

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2010

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

Noncompliance material to financial statements
noted? yes X no

FEDERAL AWARDS

Internal control over major programs:
~ Material weakness(es) identified? yes X no
~ Significant deficiency(s) 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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Low Income Public Housing
14.872	Capital Fund Program
14.885	Capital Fund Stimulus Program

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

Auditee qualified as low-risk auditee? X yes no

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PRIOR YEAR FINDINGS

2009-01

PRIOR
CONDITION:

UNLOCATED INFORMATION:

The Authority could not provide an actuarial calculation with the necessary disclosures for its Public Employers Retirement Plan.

CURRENT
CONDITION:

This finding continues.

Finding is Continued as 2011-01

2009-02

PRIOR
CONDITION:

AFFILIATES OF THE BLENDED COMPONENT UNIT:

We noted a significant balance in Investment in Joint Ventures on the Trial Balance of Kendallville Financing Corporation, which is a blended component unit of the Authority. This balance is an investment as a general partner in a limited partnership (Lamplighter II) per a discussion with the Authority's management. Upon verification of this balance through the Schedule K1, we noted the entity listed as the general partner in this partnership is Kendallville Affordable Housing Financing Corporation per Authority management. The Authority could not provide documentation as to what the relationship is between Kendallville Housing Financing Corporation, Kendallville Affordable Housing and the limited partnership (Lamplighter II). Consequently, we were unable to determine the effect on the Authority's financial statements.

CURRENT
CONDITION:

Using the GASB 14/39 checklist, the appropriate component units were determined. The appropriate component units have been included in this audit report.

Finding is Cleared.

2009-03

PRIOR
CONDITION:

FEDERAL 941 QUARTERLY TAX RETURNS:

The Authority failed to file Federal 941 Quarterly tax returns with the Internal Revenue Service for 2009.

CURRENT
CONDITION:

The 941's were timely filed.

Finding is Cleared

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PRIOR YEAR FINDINGS

(Continued)

2009-04	PRIOR CONDITION:	<u>INTEREST INCOME:</u> The Interest Income account balance could not be reconciled with the bank statements or the 1099-INT's. Consequently, we were unable to satisfy ourselves as to the validity of this account balance.
	CURRENT CONDITION:	This finding is cleared. <u>Finding is Cleared</u>
2009-05	PRIOR CONDITION:	<u>UNSUPPORTED ACCOUNT BALANCE:</u> We noted an Accounts Receivable-Other balance of \$6,293.22. The Authority could not provide the necessary documentation to support this account balance.
	CURRENT CONDITION:	Support for all account balances was located. <u>Finding is Cleared</u>
2009-06	PRIOR CONDITION:	<u>ACCOUNTS RECEIVABLE - OTHER:</u> We noted an Accounts Receivable - Other balance of \$43,602.71. This balance consisted of startup cost made to another entity in 2005.
	CURRENT CONDITION:	All Accounts Receivable balances were verified and appropriate allowances were entered. <u>Finding is Cleared</u>
2009-07	PRIOR CONDITION:	<u>HOUSING ASSISTANCE PAYMENTS:</u> The Kendallville Housing Authority over utilized their housing assistance payments during the fiscal year.
	CURRENT CONDITION:	The Authority is no longer operating a Section 8 program. <u>Finding is Cleared</u>

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PRIOR YEAR FINDINGS

(Continued)

2009-08

PRIOR
CONDITION:

FINANCIAL STATEMENTS:

We believe that the Authority did not have controls over the preparation of the financial statements, including footnote disclosures, to prevent or detect a misstatement in the financial statements.

CURRENT
CONDITION:

The Authority is utilizing their fee accountant as a facilitator.

Finding is Cleared

CURRENT YEAR FINDINGS

SECTION II - FINANCIAL STATEMENT FINDINGS

2010-01

CURRENT
CONDITION:

UNLOCATED INFORMATION:

The Authority could not provide an actuarial calculation with the necessary disclosures for its Public Employers Retirement Plan.

CRITERIA:

HUD rules and regulations require requested information should be readily available for audit examination.

CAUSE/EFFECT:

It appears management has not placed proper emphasis in safe keeping its records and ensuring all information requested is readily available for audit examination.

RECOMMENDATION:

We recommend the Authority place greater emphasis in safe keeping its records and ensuring all information requested is readily available for audit examination.

REPLY:

The Housing Authority has attempted to acquire this letter. We are still working with PERF to obtain this letter. This has never been requested in previous audits. The Executive Director John Sisson will be responsible for obtaining this information for future audits.

DISCUSSED WITH: John Sisson

~~SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS~~

There were no Federal Award findings.

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
Kendallville, Indiana

DECEMBER 31, 2010

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

<u>FINDING</u>	<u>CONDITION</u>	<u>STATUS</u>
2010-01	Unlocated Information	Continued
2010-02	Affiliates of the Blended Component Unit	Cleared
2010-03	Federal 941 Quarterly Tax Return	Cleared
2010-04	Interest Income	Cleared
2010-05	Unsupported Account Balance	Cleared
2010-06	Accounts Receivable - Other	Cleared
2010-07	Housing Assistance Payments	Cleared
2010-08	Financial Statements	Cleared