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August 18, 2017

HUD Representative
City of Gary Housing Authority
578 Broadway
Gary, IN 46402

We have reviewed the audit report prepared by Velma Butler & Company, LTD., Certified Public Accountants and Consultants, for the period April 1, 2015 to March 31, 2016. The Independent Public Accountant provided a modified opinion on the financial statements included in the report due to some account balances had not been fully vetted and financial transaction were not sufficient to allow reasonable assurance on the completeness of accounting records for the balances. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

The 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* references Finding 2016-001 and classifies it as a significant deficiency in internal control over financial reporting. The Report on Compliance for Each Major Program: and Report on Internal Control Over Compliance: and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance references Findings 2016-002 through 2016-006. These are classified as instances of noncompliance that do not modify the opinion on each major program. These findings are found in the Schedule of Current Year Findings and Questioned Costs.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

THE HOUSING AUTHORITY OF THE
CITY OF GARY, INDIANA
INDEPENDENT AUDITORS' REPORT,
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION,
INCLUDING SINGLE AUDIT REPORTS
FOR THE YEAR ENDED
MARCH 31, 2016

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Gary, Indiana
Gary, Indiana

U.S. Department of Housing and Urban
Development
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the aggregate discretely presented component units of the Housing Authority of the City of Gary, Indiana (the Authority), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 of assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Modified Opinion

Management is in the process of reviewing and correcting account beginning balances for any previous errors or misstatements. While the process is ongoing, some account balances have not been fully vetted and the financial transactions were not sufficient to allow us to place reasonable assurance on the completeness of accounting records for the balances. Accordingly, it was not practicable for us to extend our audit procedures beyond the records available to us for balances not fully vetted.

Modified Opinion

In our opinion, except for the effects of the matter described in the Basis for Modified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Gary, Indiana, as of March 31, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Other Information

Our audit was conducted for the purpose for forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanied financial data schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles,

and Audit Requirements for Federal Awards, and the other information are presented for purpose of additional analysis and are not a required part of the basic financial statements.

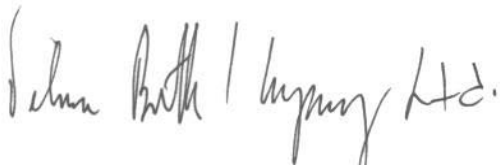
The accompanying supplementary information such as financial data schedules and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of the matter described in the Basis for Modified Opinion paragraph, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Authority's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Summarized Comparative Information

We previously audited the Authority's 2015 financial statements, and we were able to obtain sufficient appropriate audit evidence to provide a basis for our modified audit opinion dated March 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2015, is consistent, in all material respects, with the financial statements from which it has been derived.



Velma Butler & Company, Ltd.
Chicago, Illinois

December 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HOUSING AUTHORITY of the CITY
of GARY, INDIANA
578 Broadway
Gary, Indiana 46402**

To the Board of Commissioners of the
The Housing Authority of the City of Gary, Indiana
Gary, Indiana

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Housing Authority of the City of the Gary, Indiana's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on March 31, 2016.

We are pleased to submit the financial statements of the Housing Authority of the City of Gary, Indiana for the year ended March 31, 2016. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information, which complies with reporting requirements of the U.S. Department of Housing and Urban Development (HUD) and the Governmental Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- Net Position at March 31, 2016, was \$79.1 million an increase of \$5.1 million from the March 31, 2015 total of \$73.9 million.
- Revenue increased by \$6.8 million for the fiscal year 2016. The increase was primarily due to an increase in HUD Capital Grants.
- Operating expenses, excluding depreciation, increased by \$1.4 million or by 6.3%, from \$22 million at March 31, 2015 to \$23.4 million at March 31, 2016.
- Total assets increased by \$4.8 million, from \$81.7 million at March 31, 2015 to \$86.5 million at March 31, 2016.
- Capital assets were \$66.6 million at March 31, 2016, an increase of \$3.2 million from the March 31, 2015, balance of \$63.4 million, primarily because of improvements made through capital grant funds.
- Liabilities decreased by \$313 thousand, from \$7.8 million at March 31, 2015 to \$7.5 million at March 31, 2016.

The management's discussion and analysis section includes information on the past, present and future events that have been enacted, adopted, agreed upon, and/or contracted by of the Authority. It focuses on analysis of the financial statements and the improvements in the Authority's management.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units.

USING THIS REPORT

The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating, or otherwise changing in a dramatic manner.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information detailing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event that gave rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities.

These financial statements report on the functions of the Authority that are principally supported by intergovernmental revenues. The Authority's function is to provide decent, safe, and sanitary housing to the moderate, low-income and special needs populations, which is primarily funded with grant revenue received from the U.S. Department of Housing and Urban Development (HUD).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements are presented as a single enterprise fund whose operations include the low income housing program, the housing choice voucher program, special grants, and component units as follows.

Fund Financial Statements are groupings of accounts used to maintain control over resources segregated for specific activities or objectives. The Authority, like other state, local, or quasi-governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority's fund only consisted of a *Proprietary Fund*.

The Authority's *Proprietary Fund* is comprised of an enterprise funds with "business-type" activities intended to recover all or a portion of their costs through fees and charges for services. Since the Authority maintains its activities in enterprise funds, its Proprietary Fund financial statements provide information about the activities of the Authority as a whole. Funds included in the enterprise fund are listed below.

Low-Income Public Housing-Under the Low Income Public Housing Program, the Authority rents units it owns to moderate and low-income families. The Low Income Public Housing Program is operated under an Annual Contribution Contract (ACC) with HUD, and HUD provides an operating subsidy to enable the Authority to provide housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) - The Low Income Public Housing Program also includes the CFP, which is the primary funding source for physical management improvements to the Authority's properties. CFP funding is based on a formula allocation that takes into consideration the size and age of the authorities housing stock.

Section 8 Housing Assistance-Vouchers and Moderate Rehabilitation -The Housing Choice Voucher and Moderate Rehabilitation Programs are the federal government's programs for assisting moderate and low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. The programs are administered locally by public housing authorities (PHAs). The PHAs receive funds from HUD to administer the programs. A housing subsidy is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Resident Opportunities and Self Sufficiency - (ROSS) Program - The purpose of the program is to provide funding to hire and maintain service coordinators to assess the needs of residents and to coordinate available resources.

Components Units - The Component units are not-for-profit organizations formed by the Authority for the purpose of assisting in the development of projects which provide housing to a mixture of moderate, low-income and market rate families. The moderate and low-income family's rents are subsidized by HUD.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments and the United States Office of Management and Budget's (OMB) Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs.

The financial section provides information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other

supplementary information that further explains and supports the information in the financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

Net position represents the difference between total assets and total liabilities. As shown in Table 1, the Authority's net position at March 31, 2016 increased by \$5.1 million to \$79.1 million from \$73.9 million. This was a 6.9% increase.

Table 1
Gary Housing Authority Net Position
(in thousand dollars)

	2016	2015	Change	Percentage Change
Cash and Investments	\$ 6,246	\$ 5,625	\$ 621	11.0%
Other Current Assets	1,443	961	482	50.2%
Total Current Assets	<u>7,689</u>	<u>6,586</u>	<u>1,103</u>	16.7%
Non-Current Assets				
Capital Assets	66,592	63,437	3,155	5.0%
Notes Rec. and Accrued Int.	12,254	11,710	544	4.6%
Total Assets	<u><u>86,535</u></u>	<u><u>81,733</u></u>	<u><u>\$ 4,802</u></u>	5.9%
Current Liabilities	\$ 1,151	\$ 1,756	\$ (605)	-34.5%
Inflows - Interest Income	3,417	2,873	544	18.9%
Notes and Bonds Payable	1,845	2,140	(295)	-13.8%
Other Non Current Liabilities	1,062	1,019	43	4.2%
Total Liabilities	<u>7,475</u>	<u>7,788</u>	<u>(313)</u>	-4.0%
Unrestricted	12,349	10,315	2,034	19.7%
Restricted Net Assets	119	193	(74)	-38.3%
Net Investment in Capital Assets	66,592	63,437	3,155	5.0%
Total Net Position	<u>79,060</u>	<u>73,945</u>	<u>5,115</u>	6.9%
Total Liab. and Net Position	<u><u>\$ 86,535</u></u>	<u><u>\$ 81,733</u></u>	<u><u>\$ 4,802</u></u>	5.9%

CAPITAL ASSETS

Capital assets increased by \$3.2 million from \$63.4 million to \$66.6 million, as shown in the table below:

	<u>March 31, 2015</u>	<u>Additions / Deletions</u>	<u>March 31, 2016</u>
Land and Structures	\$ 76,349,860	\$	\$ 76,349,860
Leasehold Improvements	13,671,520		13,671,520
Equipment and Furniture	6,632,911	(278,145)	6,354,766
Construction in Progress	30,438,697	4,920,485	35,359,182
Less Accum. Depreciation	(63,656,126)	(1,486,811)	(65,142,937)
Total Capital Assets	<u>\$ 63,436,862</u>	<u>\$ 3,155,529</u>	<u>\$ 66,592,391</u>

Capital additions totaled \$4,920,825 and dispositions were \$278,145. Depreciation expense for the year totaled \$1,486,811.

NON-CURRENT ASSETS AND LIABILITIES

The Authority has several notes receivable outstanding as a result of funds loaned to its mixed income developers. These are long-term notes that will mature in 2051 and 2060. Interest payments are accumulated and are not required to be paid until the developments generate positive cash flow per HUD regulations. Notes receivable totaled \$8.8 million. Deferred inflow and outflows of resources from accrued interest receivable and deferred interest income totaled \$3.4 million.

The Authority maintains escrow deposits for repairs related to the notes totaling \$922 thousand.

Additional information can be found in the Notes to Financial Statements.

BONDS PAYABLE

The Authority has bonds outstanding totaling \$2.7 million which consists of \$2.1 million in principal and \$587 thousand in interest to bond holders. The bonds mature in 2021. Interest is paid semi-annually and principal is paid annually. The bonds are secured by \$2.6 million held in escrow by a bank. The bank makes all payments to bond holders.

Change in Net Position

As shown in Table 2, below, the Authority's total operating revenues, which included all HUD Grants, tenant rents, interest and other income increased by \$6.8 million or 29.1 percent, while total expenses increased by \$1.8 million or 7.7 percent, from approximately \$23.1 million at March 31, 2015 to \$24.8 million at March 31, 2016.

Table 2
Changes in Gary Housing Authority's Net Position
(in thousand dollars)

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percentage Change</u>
Tenant Revenue	\$ 2,558	\$ 2,590	\$ (32)	-1.2 %
HUD Revenue	26,378	19,890	6,488	32.6 %
Other Income	1,024	724	300	41.4 %
Total Revenue	<u>29,960</u>	<u>23,204</u>	<u>6,756</u>	29.1 %
Operating Expenses	23,358	21,978	1,380	6.3 %
Depreciation	1,487	1,088	399	36.7 %
Total Expenses	<u>24,845</u>	<u>23,066</u>	<u>1,779</u>	7.7 %
Change in Net Position	5,115	138	4,977	3606.5 %
Beginning Net Position	73,945	73,807	138	0.2 %
Ending Net Position	<u>\$ 79,060</u>	<u>\$ 73,945</u>	<u>\$ 5,115</u>	6.9 %

As previously stated, operating expenses increased by approximately 7.7 percent, changes are shown below in Table 3:

Table 3
Gary Housing Authority's Operating Expense
(in thousand dollars)

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Total Percent Change</u>
Administrative Expenses	\$ 4,200	\$ 3,689	\$ 511	13.9%
Tenant Services	232	50	182	364.0%
Utilities Expenses	2,500	3,009	(509)	-16.9%
Ordinary Maintenance	3,491	3,222	269	8.3%
Protective Services	771	701	70	10.0%
General Expenses	774	742	32	4.3%
Housing Assistance Payments	11,211	9,969	1,242	12.5%
Casualty Losses		398	(398)	100.0%
Interest Expenses	179	198	(19)	-9.6%
Depreciation Expense	1,487	1,088	399	36.7%
Total Operating Expenses	<u>\$ 24,845</u>	<u>\$ 23,066</u>	<u>\$ 1,779</u>	7.7%

Operating expenses increased for most accounts, but was offset by decreases mainly in utility expenses and casualty losses.

BUDGETARY HIGHLIGHTS

The chief financial officer prepares and submits a proposed operating budgets for revenues and expenses for the all programs, functions, activities, or objectives for the following fiscal year to the governing board. The governing board approves and adopts the budget. Operating monies are determined by rents and operating subsidies provided by HUD, as established by Congress. The funding is dependent on the availability of federal funds. The Authority did not establish budgetary amendments for the fiscal year-end March 31, 2016.

Capital project budgets are approved and are adopted for five years by the Board of Commissioners and HUD based on Federal funding. They are then annualized to strengthen monitoring and completion benchmarks. Budgeted and actual costs are compared to the five year plan and are monitored by the Authority and HUD. Line item variances are resolved and approved by HUD.

MAJOR INITIATIVES

The Gary Housing Authority continues to provide comprehensive service in the City of Gary to assure the existence of affordable housing for low to moderate income individuals, families, senior citizens, handicapped, and disabled individuals. Under the leadership of a dedicated Board of Commissioners and the hard work of true professionals in the field of affordable housing, the agency continues to make progress, considering the various challenges for the federally subsidized housing providers. Improvements planned for the upcoming year(s) include the rehabilitation of long-term vacant units; upgrade of occupied units; and the demolition of housing units deemed non-viable. The aforementioned are only some of the many initiatives planned, as we continue to seek avenues and resources to improve the lives our residents.

ECONOMIC FACTORS

The Authority is primarily dependent upon HUD for its funding of operations; therefore, operating revenues are more affected by the Federal budget than by local economic conditions.

CONTACTING THE HOUSING AUTHORITY

The financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Starlene Williams, Controller, The Housing Authority of the City of Gary, Indiana, 578 Broadway, Gary, Indiana 46402, or call 219-888-6619.

Sincerely,



Julian Marsh
Executive Director

BASIC FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
 STATEMENT OF NET POSITION - ENTERPRISE FUND
 MARCH 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

EXHIBIT A

	2016 TOTAL	2015 TOTAL
ASSETS		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 2,549,179	\$ 1,593,124
Investments and Escrows	3,697,208	4,031,925
Accounts Receivable, net	1,144,657	703,426
Prepaid Expenses	104,829	95,201
Material Inventories, net	193,058	162,084
Total Current Assets	<u>7,688,931</u>	<u>6,585,760</u>
<u>NON CURRENT ASSETS</u>		
Accrued Interest Receivable	3,417,282	2,873,470
Notes Receivable - Long Term	8,837,060	8,837,060
Capital Assets, net	66,592,391	63,436,862
Total Non-Current Assets	<u>78,846,733</u>	<u>75,147,392</u>
TOTAL ASSETS	\$ <u>86,535,664</u>	\$ <u>81,733,152</u>
LIABILITIES AND NET POSITION		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 520,183	\$ 1,125,265
Accrued Liabilities	301,049	289,945
Accrued Compensated Absences - Current	34,421	65,742
Bonds Payable - Current	295,000	275,000
Total Current Liabilities	<u>1,150,653</u>	<u>1,755,952</u>
<u>NONCURRENT LIABILITIES</u>		
Escrow Deposits	922,265	926,727
Accrued Compensated Abs. - Non-Current	140,389	91,991
Inflow of Resources	3,417,282	2,873,470
Bonds Payable - Long-Term	1,845,000	2,140,000
Total Noncurrent Liabilities	<u>6,324,936</u>	<u>6,032,188</u>
Total Liabilities	<u>7,475,589</u>	<u>7,788,140</u>
<u>NET POSITION</u>		
Unrestricted Net Assets	12,221,205	10,314,759
Restricted Net Assets	246,479	193,391
Net Investment in Capital Assets	66,592,391	63,436,862
Total Net Assets	<u>79,060,075</u>	<u>73,945,012</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>86,535,664</u>	\$ <u>81,733,152</u>

See Accompanying Notes to Financial Statements

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED MARCH 31, 2016 (WITH 2015 TOTALS)

EXHIBIT B

	2016 TOTAL	2015 TOTAL
OPERATING REVENUES		
Tenant Charges	\$ 2,558,740	\$ 2,598,590
HUD Operating Grants	21,393,273	18,093,059
Other Income	985,049	608,038
TOTAL REVENUES	<u>24,937,062</u>	<u>21,299,687</u>
OPERATING EXPENSES		
Administrative Expenses	4,199,689	3,689,182
Tenant Services	231,953	50,077
Utilities Expenses	2,499,539	3,009,007
Ordinary Maintenance	3,491,651	3,222,288
Protective Services	771,327	700,974
General Expenses	774,084	742,047
Housing Assistance Payments	11,211,602	9,969,183
Casualty Losses	-	397,398
Interest Expense	178,710	197,580
Depreciation Expense	1,486,812	1,088,490
TOTAL OPERATING EXPENSES	<u>24,845,367</u>	<u>23,066,226</u>
OPERATING INCOME (LOSS)	<u>91,695</u>	<u>(1,766,539)</u>
NON-OPERATING REVENUES AND (EXPENSES)		
Interest Income	38,518	107,251
Gain/ (Loss) on Disposal of Assets	-	600
Total Non-Operating Income/ (Loss)	<u>38,518</u>	<u>107,851</u>
CAPITAL CONTRIBUTIONS AND (LOSSES)		
HUD Capital Grants	4,984,850	1,796,582
CHANGES IN NET POSITION	<u>5,115,063</u>	<u>137,894</u>
BEGINNING NET POSITION	73,945,012	73,807,118
ENDING NET POSITION	<u>\$ 79,060,075</u>	<u>\$ 73,945,012</u>

See Accompanying Notes to Financial Statements

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2016 (WITH 2015 TOTALS)**

EXHIBIT C

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants and Others	\$ 24,938,440	\$ 23,314,844
Payments to Employees	(2,854,214)	(2,608,388)
Payments to Vendors and Suppliers	(21,568,913)	(22,302,023)
Net Cash Provided by/(Used for) Operating Activities	515,313	(1,595,567)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Gain)/Loss on Investments	(35,083)	320,271
Sale of Investments	473,000	
Interest on Investments	(3,435)	107,251
Net Cash Provided by/(Used for) Investing Activities	434,482	427,522
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES		
(Purchase)/Sale of Capital Assets		(238,612)
Investment in Capital Assets	(4,920,485)	(1,796,582)
Capital Grants	4,984,850	
Disposal of Asset	236,895	2,161,759
Increase/(Decrease) in Bonds Payable	(295,000)	(275,000)
Net Cash Provided by/(Used for) Financing Activities	6,260	(148,435)
NET INCREASE IN CASH AND CASH EQUIVALENTS	956,055	(1,316,480)
CASH AND CASH EQUIVALENTS AT APRIL 1, 2015	1,593,124	2,909,604
CASH AND CASH EQUIVALENTS AT MARCH 31, 2016	\$ 2,549,179	\$ 1,593,124
Unrestricted Cash and Cash Equivalents at March 31, 2016	\$ 2,204,335	\$ 771,188
Restricted Cash March 31, 2016 for Current Liabilities	188,439	
Restricted Cash March 31, 2016 for Non-Current Liabilities	156,405	821,936
CASH AND CASH EQUIVALENTS AT MARCH 31, 2016	\$ 2,549,179	\$ 1,593,124
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Income	\$ 91,695	\$ (1,766,539)
Adjustments To Reconcile:		
Depreciation	1,486,811	1,088,490
Add back Loss on Disposal	-	(600)
Changes in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	(431,574)	(364,989)
(Increase)/Decrease in Prepaid Expenses	(9,628)	(2,457)
(Increase)/Decrease in Material Inventories	(30,974)	90,871
(Increase)/Decrease in Accrued Interest Receivables	(543,811)	(290,356)
Increase/(Decrease) in Accounts Payable	(614,734)	(727,783)
Increase/(Decrease) in Accrued Liabilities	28,179	88,473
Increase/(Decrease) in Escrow Deposits	(4,462)	(1,033)
Increase/(Decrease) in Deferred Interest	543,811	290,356
Net Cash Provided by/(Used for) Operating Activities	\$ 515,313	\$ (1,595,567)
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		

See Accompanying Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
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Note 1 - Organization and Program Description

The Housing Authority of the City of Gary, Indiana (the Authority) is a municipal corporation created and organized under the Housing Authority Act of the State of Indiana to engage in the acquisition, development, leasing and administration of a low-income housing program and other federally assisted programs.

The governing body of the Authority is its Board of Commissioners (Board) composed of seven members appointed by the Mayor of the City of Gary (City). The Board appoints an Executive Director to administer the affairs of the Authority. The Authority is not considered a component unit of the City.

In August 2013, HUD took over the day to day operations of the Housing Authority. The Board of Commissioners was dissolved and a one member HUD employee was designated as the Board of Commissioner.

The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering housing programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities and provide funds to assist the Public Housing Authorities (PHAs) in financing the acquisition, construction, and/or leasing of housing units; make housing assistance payments; and make annual contributions (subsidies) to PHAs for the purpose of maintaining the low income character of the local housing program.

The Gary Housing Authority is a separate governmental entity created for the purpose of constructing, maintaining, and operating public housing and providing rental assistance to low and moderate income persons. The majority of its funding is provided by the Department of Housing and Urban Development (HUD). All funds and programs are included in these statements.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements present the various program activities of the Authority. The Authority's assets, liabilities and results of operations are segregated into public housing and grant programs as follows:

Low Income Housing - The low income housing program provides subsidized housing to low income residents. The Authority is the owner of public housing units located throughout the City. The Authority receives revenue from dwelling rental income and operating subsidies provided by HUD. Capital Grants and Development (Hope VI) Funds are also provided by HUD and are used to improve the construction, physical condition, management and operation of existing public housing developments. The low income housing program is reported as an enterprise fund.

Capital Fund Grants - Substantially all additions to land, buildings, and equipment are funded through Capital Grant Fund Program or Hope VI - Development Program. These programs

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

add to, replace or materially upgrade deteriorated portions of the Authority's housing units. Funding is provided through programs established by HUD.

Section 8 Programs - The Authority participates in the housing choice voucher, and moderate rehabilitation programs. These programs are designed to provide privately owned, decent, safe and sanitary housing to low income families. The Authority provides assistance to low income persons seeking decent, safe and sanitary housing by subsidizing rents between such persons and owners of existing private housing. Under the programs, the Authority enters into housing assistance payment contracts with eligible landlords. To fund the program, the Authority enters into annual contribution contracts with HUD for the receipt of rental subsidies. The Housing Choice Voucher and the moderate rehabilitation programs are also reported as enterprise funds.

Resident Opportunities and Self Sufficiency - (ROSS) Program - The purpose of the program is to provide funding to hire and maintain service coordinators to assess the needs of residents and to coordinate available resources.

A. Reporting Entity

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

These principles define the reporting entity of the primary government, as well as its component units. Component units are separate legal organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based upon the application of these criteria, the reporting entity includes the Gary Housing Authority LLC, Gary Housing Development Corporation, Small Farms Development Corporation (Small Farms), and Fifth Avenue Housing Development Corporation, as component units.

The basis criterion for including a legally separate organization as a component unit is the degree of financial accountability the Authority has over the organization.

In accordance with GASB 14 as amended by GASB 61, major component unit reporting requirements should be satisfied by including combining statements of major component units in the reporting entity's basic financial statements after the fund financial statements. The following component units are presented in the basic financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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Component Units

The Authority included all component units as blended component units of the Authority. Blended component units are separate legal entities that meet the component unit criteria: The Authority and its components have (1) a financial burden and benefit relationship; (2) the Authority has operational responsibilities for activities of the component unit; (3) the component unit provides services entirely for the benefit of the Authority. Additionally, the governing body of the component unit is the same or substantially the same as the Authority's Board.

Gary Housing Authority, LLC (GHA LLC)

GHA LLC was established on September 4, 2003 as a for profit limited liability company. GHA LLC was formed to acquire and/or manage real property. The LLC was formed by the Authority, it's sole member, for the purpose of assisting in the development of a 131 unit multifamily housing project leased to Duneland Village Apartments, L.P., under Section 542(c) of the Housing and Community Development Act of 1992, defined under the provisions of section 221(d)(4) of The National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2004. The management building was completed in August 2005. Apartments are rented to a mixture of moderate, low-income and market-rate tenants. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

Gary Housing Development Corporation (GHDC)

GHDC was established on July 9, 2003 as a nonprofit company to acquire and/or manage real property. GHDC was formed by the GHA, its sole participant, for the purpose of assisting in the development of a 123 unit multifamily housing project leased to Horace Mann Associates, L.P., under section 542(c) of the Housing and Development Act of 1992, defined under the provisions of section 221(d)(4) of the National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2006. Apartments are rented to a mixture of moderate, low income and market rate tenants. *Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

Fifth Avenue Housing Development Corporation (Fifth Avenue)

Fifth Avenue was formed in May 1983 to assist in the development of housing projects within the meaning of Section 3(b) of the United States Housing Act of 1937. Fifth Avenue issued Construction Loan Notes and Mortgage Revenue Bonds for both Gary NSA III and NSA V. The Construction Loan Notes and Mortgage Revenue Bonds were both retired in 2001. Apartments were rented to a mixture of low income and market rate tenants. The Authority subsequently entered into a lease with NSA III and V to manage its Section 8 program. The Section 8 management has subsequently been discontinued and the corporation has been inactive.

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FOR THE YEAR ENDED MARCH 31, 2016**

Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

Small Farms Development Corporation (Small Farms)

Small Farms was formed in March 1979 to engage in the development of housing projects within the meaning of Section 3(6) of the United States Housing Act of 1937. Small Farms provided interim construction financing and permanent mortgage financing for the construction of 13 two-story buildings consisting of 200 units for low income families, and a community building on 20 acres of land in Gary, Indiana. Small Farms provided financing to fund the project by issuing Mortgage Revenue Bonds in April 1979. Apartments are rented to a mixture of moderate, low income and market rate tenants. Government backed securities were purchased as security for the loans. The bonds are managed by an independent administrator. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized and operated on the basis of fund accounts. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounts segregate funds according to their intended purpose and are used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time they are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

C. Fund Accounting

Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Authority maintains the following fund types and account groups:

- Public Housing Units consist of HUD financed units, owned by the Authority. Funds include low-income housing programs, capital grant program and Hope VI - development program.
- Section 8 programs consist of HUD provided rental housing assistance programs, where the rents are paid directly to landlords. Funds include the housing choice voucher and moderate and substantial rehabilitation programs.
- ROSS program consist of funds to hire and maintain service coordinators to assess the needs of residents and to coordinate available resources.

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- Component unit funds consist of the financing activities of the construction of mixed income housing units and the issuance of bonds to develop affordable housing.

Proprietary Funds - The Authority's operations are accounted for in a single *Enterprise Fund*. Enterprise Funds account for those operations that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred and/or net income are necessary for management accountability.

Management's 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 assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents are defined as short-term, highly liquid investments that are both: readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes all demand deposits, saving accounts and certificates of deposits or short-term investments with a maturity date of three months or less.

Restricted Cash - Restricted assets include cash legally restricted as to their use. The primary restricted assets are related to the low rent housing program and housing choice voucher program for various funds restricted for tenants or future housing assistance payments.

Net Position - The Authority has adopted GASB Statement No. 33. In accordance with GASB Statement No. 33, capital contributions are recognized as revenue when expenditures are made and amounts become subject to claim for reimbursement. Depreciation recorded on property, plant and equipment acquired with funds recorded as contribution in years prior to 2000 is calculated on a straight-line basis over the estimated useful life of the related assets, charged to operations, and reclassified to the related contributed capital account. The net book values of assets disposed of are written off against contributed capital if no proceeds from the disposal are received. Depreciation recorded on the property, plant and equipment is charged to operations. Restricted resources are used first when applicable definitions are met.

Net Position includes the following:

- Net investment in capital assets - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds that are directly attributable to the acquisition, construction or improvement of these capital assets.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
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- Restricted for federal programs - the component of net position that reports the amount of revenue from a federal or state award for service programs in excess of expenditures. These funds are restricted for the use of the related federal or state program.
- Unrestricted - the difference between the assets and liabilities that is not reported in the net position invested in capital, net of related debt or net position restricted for federal and state programs.

Inter-program Due to/from - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Federal Awards - Federal grants for reimbursable programs are recognized as revenue in the year the related program expenditure occurs. Awards received prior to meeting revenue recognition criterion are recorded as deferred revenue. Operating grants are recorded as revenue in the year earned.

Investments - The Authority has estimated the fair values of its financial investments using available market information and other valuation methodologies in accordance with GASB Statement No. 31. Federal statutes authorize investment of excess federal funds in instruments guaranteed by the federal government. The Authority has adopted this policy for all invested funds, whether or not they are federal funds. The Authority is also in compliance with all state and local laws and regulations regarding investments.

Inventories - Inventories are stated at the lower of cost or market.

Prepaid Expenditures - Payments made to vendors for services that will benefit periods beyond March 31, 2016, are recorded as prepaid items.

Compensated Absences - The Authority allows full-time regular employees to accumulate unused vacation.

- Vacation is accrued based on length of employment, ranging from 13 days per year after 12 months of continuous service to 25 days after 20 years of continuous service. Unused vacation is paid upon termination.

Capital Assets - The Authority capitalizes capital assets with a cost of more than \$5,000 and a useful life of one year or more. Proprietary fund types focus on capital maintenance. Accordingly, land, structures and equipment are recorded in the enterprise fund, which acquires such assets.

Capital assets are stated at cost or at estimated historical cost. The cost of maintenance and repairs is charged to operations as incurred and improvements are capitalized. Capital assets are depreciated over their useful lives using the straight-line method of depreciation as follows:

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Building	40 years
Building Modernization	10-27.5 years
Infrastructure	40 years
Office Furniture and Equipment	5-7 years
Automobiles	5 years
Computers	3 years

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for rents. 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.

Subsidies received from HUD or other grantor agencies, for operating purposes, are recorded as operating revenue in the operating statement while capital grant funds are added to the net position in the non-operating revenue and expense.

Risk Management

The Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Authority has not established a Risk Management Fund greater than its insured risks of loss. Any additional coverage will be paid from general fund resources. Current insurance coverage includes: worker's compensation, general liability, property damage, flood and auto. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

Financial Information for 2015

The financial statements include certain prior-year summarized comparative information in total but not by net position class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2015, from which the summarized information was derived.

Note 2 - Budget Information

Enterprise Funds - The Authority is required by contractual agreements to adopt annual operating budgets for all its enterprise funds receiving federal expenditure awards. The Chief Financial Officer prepares all budgets on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
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All annual appropriations lapse at fiscal year-end. Operating budgets for the year are prepared for capital projects activity, which is included in the low income housing enterprise fund. Budgets are submitted by the Authority's Executive Director and approved by resolutions of the Board of Commissioners and/or HUD.

Appropriations for capital projects are authorized at the fund and expenditure level, and effective budgetary control is achieved through periodic budgeting and reporting requirements.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents totaled \$2,549,179, at March 31, 2016, and are maintained in commercial checking accounts and are readily available. HUD regulations require authorities to maintain funds in accounts that are fully collateralized by United States government securities.

Cash amounts in excess of the \$250,000, FDIC limit, insured by the government were collateralized by government securities and held in the pledging financial institutions' trust departments in the Authority's name. Indiana Public Deposit Insurance Fund also provides additional coverage in excess of the FDIC limit to the Authority's depository financial institution. The Authority is also in compliance with all state and local laws and regulations regarding cash equivalents. Of the total cash on hand at March 31, 2016, \$2,204,335 was unrestricted and \$344,844 was restricted, as shown below:

Total Unrestricted Cash	\$	2,204,335
Tenant Security Deposits		188,439
Housing Assistance Payment		73,753
FSS and Homeowner Escrow		82,652
Total Restricted Cash		<u>344,844</u>
Total Cash	\$	<u><u>2,549,179</u></u>

Note 4 - Investments

At March 31, 2016, investments totaled \$3,697,208, which consisted of money market accounts and government securities. The fair values and unrealized gain/loss at March 31, 2016, are summarized as follows:

Description	Category 1		Unrealized Gain/(Loss)
	Book Value	Market Value	
Money Market	\$ 133,473	\$ 133,473	\$ -
Government Securities	3,563,735	3,563,735	-
Total Investments	\$ 3,697,208	\$ 3,697,208	\$ -

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Category 1 - Certificates of deposit investments are insured by the Federal Depositor Insurance Corporation and are further fully collateralized by government security and held in the pledging financial institution's trust department in the Authority's name.

Money market and government security accounts are amounts held in escrows invested by the trustee in federal securities and U.S. Treasury Obligations money market funds. The Authority is currently not exposed to custodial credit risk or concentration risk, as defined in GASB 40.

Restricted investments totaled \$3,563,735, as follows:

Description	Money Market	Government Securities	Total
Small Farms - Bonds	\$	\$ 2,641,470	\$ 2,641,470
GHA LLC - Reserve		922,265	922,265
Unrestricted Investments	133,473		133,473
Total	\$ 133,473	\$ 3,563,735	\$ 3,697,208

Investments were restricted for the following uses:

The Small Farms Development Corporation (Small Farms) - (a nonprofit corporation created as an agency and instrumentality of the Authority) investments are restricted for future bond payments. Small Farms issued mortgage revenue bonds (FHA Insured Mortgage - Section 8 Assisted Projects) totaling \$5,465,000 on April 1, 1979.

On October 15, 1991, Small Farms entered into an agreement with a bank to act as escrow deposit trustee. Investments totaling \$4,182,627 were deposited with the trustee. Escrows were required to be invested in Federal securities. Bond holder payments are to be made June 1 and December 1 until maturity of December 1, 2021. Bonds outstanding at March 31, 2016 were \$2,140,000. (See Note 15)

Escrow reserve accounts were established in association with the Duneland loan, for future repairs. Total funds available at March 31, 2016, totaled \$922,265. (See Note 14)

Note 5 - Accounts Receivable

At March 31, 2016, accounts receivable totaled \$1,144,657, and consisted of the following:

Description	Amount
Tenant Accts. Receivable, net	\$ 129,586
Accounts Receivable - HUD	831,950
Accounts Receivable - Other	183,121
Total Accounts Receivable	\$ 1,144,657

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The Authority reviews the accounts receivable periodically. The Authority had \$970,012 in inter-fund receivables and is offset by inter-fund payables. During the year \$338,717 was charged to bad debts.

Note 6- Prepaid Expenses

Prepaid expenses totaled \$104,829, at March 31, 2016, and consisted of prepaid insurance and vendor services.

Note 7 - Material Inventories - Net

Material inventories totaled \$193,058, at March 31, 2016. Material inventories are stated at the lower of cost or market. Material inventories were not reviewed for obsolescence or adjusted during the 2016 fiscal year.

Note 8-Notes and Accrued Interest Receivable

Notes receivable at March 31, 2016, totaled \$8,837,060 and represented amounts due from various component units. Total notes receivable along with accrued interest are shown below:

Description	Notes	Interest	Total
Duneland Village Associates, L.P.	\$ 3,116,000	\$ 2,818,147	\$ 5,934,147
Horace Mann Associates, L.P.	5,221,060	246,400	5,467,460
Gary Housing Development Corp.	500,000	352,735	852,735
Total Notes and Interest Receivable	\$ 8,837,060	\$ 3,417,282	\$ 12,254,342

The Authority established the various entities to fulfill its goal of affordable housing. The component units loaned funds to developers to build these units. Notes receivable primarily consist of amounts due from developers of mixed income properties. The repayment of these notes is based on net cash flow. As of March 31, 2016, no payments had been made.

The Housing Authority of the City of Gary, Indiana (GHA) Duneland Village Associates, L.P.

The Authority provided a 57 year construction loan of \$3,116,000, to Duneland Village Associate LLC. The loan is secured by a second priority leasehold mortgage and security agreement. The note bears interest at a rate of 5.08% compounded annually until all amounts are paid in full.

These funds originated from the HOPE VI grant. During the life of the note, principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the borrower. Net

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Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the first Mortgage Loan, (ii) costs of sale or refinancing, and (iii) any re-syndication or refinancing proceeds reinvested in the Project are unavailable for distributions. Duneland pays 55% of the first \$140,000 of Net Available Cash Flow, adjusted for inflation each year, and 75% of the Net Available Cash Flow of the Project in excess of \$140,000. The loan matures on September 1, 2060. The amount outstanding at March 31, 2016 is \$3,116,000 plus accrued interest of \$2,818,147

The Housing Authority of the City of Gary, Indiana (the Authority) - Horace Mann Associates, L.P.

The Authority provided a 45.5 year construction loan of \$5,221,060, to Horace Mann Associates, L. P. The loan matures on December 31, 2051. The interest rate of the loan was 8% annually, during the construction and noninterest bearing thereafter. Maximum interest during construction was \$246,400.

The loan is secured by a third priority leasehold mortgage and security agreement. Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the First Mortgage Loan and the Second Mortgage Loan, (ii) costs of sale or refinancing, (iii) any re-syndication of refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

Thirty-six percent of Net Available Cash Flow is paid annually as long as the Second Mortgage is outstanding. The Partnership will pay the Authority 57% of Net Available Cash Flow of the Project. The loan matures on December 31, 2051. Principal outstanding at March 31, 2016 was \$5,221,060. Accrued interest was \$246,400.

Gary Housing Development Corporation (GHDC) - Horace Mann Associates, L.P.

GHDC (a wholly owned not for profit organization) provided a 39.5 year construction loan of \$500,000 to Horace Mann Associates, L. P. The loan matures on December 31, 2046. The interest rate of the loan was 8.0% annually, during the construction and 4.57% thereafter. Maximum interest during construction was \$23,600.

Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds. Until maturity, 21% of Net Available Cash Flow is paid annually. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expense for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the project, less (i) repayment of the First Mortgage Loan, (ii) costs of sale or refinancing, (iii) any re-syndication of refinancing proceeds

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reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

The loan matures on December 31, 2047. The amount outstanding at March 31, 2016 is \$500,000. Accrued interest totaled \$352,735.

HUD IG Audit

Based on an audit performed by the office of the HUD Inspector General, the Authority has entered into an agreement to repay disallowed costs back to the Section 8 Program. According to the agreement, the Low Income program must make annual reimbursement payments through December 31, 2053. At March 31, 2016 the Section 8 receivable was \$1,350,347.

This loan is eliminated on balance sheet because they are inter-funds. Monies are owed from the low income program to the section 8 program, and thus low income fund has a payable of \$1,350,347 and the section 8 fund has an equal receivable, at March 31, 2016. (See Note 14)

Note 9 - Land, Structures and Equipment

The changes in land, structures and equipment for the year ended March 31, 2016, were as follows:

	<u>March 31, 2015</u>	<u>Additions / Deletions</u>	<u>March 31, 2016</u>
Land and Structures	\$ 76,349,860	\$	\$ 76,349,860
Leasehold Improvements	13,671,520		13,671,520
Equipment and Furniture	6,632,911	(278,145)	6,354,766
Construction in Progress	30,438,698	4,920,485	35,359,183
Less Accum. Depreciation	(63,656,126)	(1,486,811)	(65,142,937)
Total Capital Assets	<u>\$ 63,436,862</u>	<u>\$ 3,155,529</u>	<u>\$ 66,592,391</u>

Changes in land, structures and equipment during the audit period consisted of increases in construction in progress, equipment purchased, property sold, and depreciation expense. Capital assets are recorded at cost. Improvements are recorded based on capital improvements made. Capital expenditures during the period totaled \$4,920,485. Disposals were \$278,145. Depreciation is recorded over the useful lives of the assets using the straight-line method of depreciation. Depreciation expenses for 2016 totaled \$1,486,811.

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Note 10 - Accounts Payable

Accounts payable totaled \$520,183, at March 31, 2016, which consisted of the following:

Description	Amount
Accounts Payable - Vendors	\$ 226,090
Tenant Security Deposits	109,338
Accounts Payable - HUD	30,469
Prepaid Rents	64,581
Escrows	89,705
Total Accounts Payable	\$ 520,183

The Authority had \$970,012 in inter-fund payables and is offset by inter-fund receivables.

Note 11 - Accrued Liabilities

Accrued liabilities totaled \$475,859, at March 31, 2016, and represented amounts due for accrued salary and vacation leave as follows:

Description	Amount
Accrued Salary and Wages	\$ 118,667
Other Accrued Liabilities	182,382
Sub-total Accrued Liabilities	301,049
Compensated Absences	174,810
Total Accrued Payables	\$ 475,859

Accrued compensated absences were \$174,808 as indicated below:

Accrued Comp. Abs - Current	34,421
Accrued Comp. Abs - Non-Current	140,389
Total Accrued Compensated Abs.	\$ 174,810

It is the Authority's policy to compensate employees for accumulated vacation leave upon termination. The Authority recognizes leave taken as a current year's salary expense during the year in which the leave is taken. Vacation is accrued for and recognized in the financial statements as an accrued liability.

Note 12-Escrow Deposits

The Gary Housing Authority, LLC. (GHA LLC) a limited liability company, created as an instrumentality of the Authority, entered into an agreement in September 2003, with the developers of Duneland Village, to fund the operating reserve escrow of \$258,000 and the operating reserve of \$250,000, required by the Indiana Housing Finance Authority, as a condition of tax credits.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

At March 31, 2016, escrow deposits amounts totaled \$922,265 which exceeds the required balance. (See Note 4)

Note 13 - Inflow of Resources

At March 31, 2016, inflow of resources totaled \$3,417,282, and consisted of accrued interest, as shown below: (See Note 8)

Duneland Note - Due Authority	\$ 2,818,147
Horance Mann Note - Due Authority	246,400
Horance Mann Note - Due GHDC	352,735
Total	<u>\$ 3,417,282</u>

Due to the uncertainty created by the length of time preceding the payment of interest and the provisions of certain note that interest payments are contingent upon the existence of surplus cash, interest earned has been deferred.

Note 14 - Notes Payable - IG

The Authority has entered into an agreement with the Office of the HUD Inspector General to repay costs disallowed because of an audit. At March 31, 2016 the low income fund owed the Section 8 fund \$1,350,347 as follows: See Note 8

Current Balance	\$ 57,902
Non-Current Balance	<u>1,292,445</u>
Total	<u>\$ 1,350,347</u>

The receivable and the related payable have been eliminated.

Note 15 - Bonds Payable

The Small Farms, an agency of the Authority, has bonds outstanding totaling \$2,140,000.

Interest earned and payable is 7.4 percent. The bonds mature in 2021. As discussed in note 4, the Authority has accumulated escrow deposits of \$2,641,470, toward the payment of principal and interest. Current and non-current payments are as shown below: (See Note 4)

<u>Description</u>	<u>Amount</u>
Current Portion	\$ 295,000
Long-Term Portion	<u>1,845,000</u>
Total Bonds Payables	<u><u>\$ 2,140,000</u></u>

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

Future payment amounts are as follows:

Year End	Principal Payment	Interest Payment	Total
3/31/2017	295,000	158,360	453,360
3/31/2018	320,000	136,530	456,530
3/31/2019	340,000	112,850	452,850
3/31/2020	340,000	112,850	452,850
Thereafter	845,000	1,110	846,110
Total Bond Payable	\$ 2,140,000	\$ 521,700	\$ 2,661,700

Note 16 - Employee Benefit Plans

The Authority established a defined contribution plan (“Plan”) administered by a third-party “Billings and Company, Inc.” under the City of Gary’s eligibility rules and regulations for the employee benefit plans. The Plan is governed by the Code and the Treasury regulations issued there under (as they might be amended from time to time). To the extent not preempted by the Federal law, the provisions of this Plan is construed, enforced and administered according to the laws of the State of Indiana.

The Plan covers all regular employees who work for at least 90 days. The maximum contribution is 13.75% of the employee’s monthly salary and the minimum employer required contribution is 7.5%. Participants’ benefits are fully vested after five years of participation and are determined solely by the provisions of the Government Agency Retirement Plan and Trust. Besides retirement benefits, the Plan offers life insurance where participants receive 100% of one year’s salary up until the age of 65 when the benefit is reduced by 35%.

The normal retirement date is the participants’ 65th birthday. Participants may elect to retire anytime after their 55th birthday, at which time they are 100% vested regardless of years of service. The amount a participant receives at early, normal, or postponed retirement is based on the amount accumulated in their account. Although no employee contributions are required, employees may make voluntary contributions not to exceed 10% of their annual salary. The Authority’s total payroll expense was \$2,608,388. The Authority made all required contributions to the Plan.

Plan assets totaled \$2,507,064, at March 31, 2016, as follows:

Description	Amount
Beginning Balance @ 04/01/2015	\$ 2,760,726
Contributions	283,672
Withdrawals	(547,867)
Earnings	10,534
Ending Balance @ 03/31/2016	\$ 2,507,064

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

Note 17 - Operating Lease Commitments

The Authority has an operating lease for office equipment (copiers) that is currently month to month. Monthly lease payments are \$6,266. The lease expired on March 29, 2016. Total lease payments were \$75,194, in 2016.

Note 18 - Commitments and Contingencies

The Authority receives financial assistance from federal government agencies in the form of grants and operating subsidies. Disbursements of funds received under these programs require compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the Authority.

The Authority also has certain contingent liabilities resulting from litigations, claims, and commitments incident to the ordinary course of business. Management expects the final resolution of such contingencies will not have a material adverse effect on the financial position of the Authority.

Note 19 - Administrative Fees

The Authority receives an "Administrative Fee" as part of each of the annual contributions contract from HUD to cover the costs (including overhead) of administering the Housing Choice Voucher Housing Assistance programs.

Note 20 - Allocation of Cost

The Authority uses the direct cost method to recognize the expenses of each project and program. The central office charges the projects and programs a management fee. This fee is recognized as income for the central office and as an expense for the projects and programs. These fees between the projects and central office are eliminated during the reporting process. Fees from the programs are not eliminated and are recognized as revenue to central office and an expense to the program. Management considers this to be an equitable method of allocation.

Note 21 - Subsequent Events

Management has performed an analysis of activities and transactions subsequent to March 31, 2016, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended March 31, 2016. Management has performed their analysis through December 6, 2016, the date the financial statements were issued. The Authority has not evaluated events occurring after December 6, 2016, in these financial statements.

SUPPLEMENTAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF PROGRAM NET POSITION
MARCH 31, 2016

	Low-Rent Public Housing	Housing Choice Voucher	Other Programs	Blended Component Units	Eliminations	2016 TOTAL
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 1,909,260	\$ 639,919	\$ -	\$ 3,563,735	\$ -	\$ 2,549,179
Investments and Escrows	87,257	46,216	-	3,563,735	-	3,697,208
Accounts Receivable, net	2,003,552	111,117	-	-	(970,012)	1,144,657
Prepaid Expenses	99,394	5,435	-	-	-	104,829
Material Inventories, net	193,058	-	-	-	-	193,058
Total Current Assets	4,292,521	802,687	-	3,563,735	(970,012)	7,688,931
NON CURRENT ASSETS						
Accrued Interest Receivable	3,064,547	-	-	352,735	-	3,417,282
Notes Receivable - Long Term	8,337,060	1,292,445	-	500,000	(1,292,445)	8,837,060
Capital Assets, net	63,481,142	-	-	3,111,249	-	66,592,391
Total Non-Current Assets	74,882,749	1,292,445	-	3,963,984	(1,292,445)	78,846,733
TOTAL ASSETS	\$ 79,175,270	\$ 2,095,132	\$ -	\$ 7,527,719	\$ (2,262,457)	\$ 86,535,664
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts Payable	\$ 1,389,654	\$ 100,541	\$ -	\$ -	\$ (970,012)	\$ 520,183
Accrued Liabilities	229,089	71,960	-	-	-	301,049
Accrued Comp. Abs. - Current	34,421	-	-	-	-	34,421
Bonds Payable - Current	-	-	-	295,000	-	295,000
Total Current Liabilities	1,653,164	172,501	-	295,000	(970,012)	1,150,653
NONCURRENT LIABILITIES						
Escrow Deposits	-	-	-	922,265	-	922,265
Accrued Comp. Abs. - Non-Current	140,389	-	-	-	-	140,389
Deferred Inflow of Resources	3,064,547	-	-	352,735	-	3,417,282
Bonds Payable - Long-Term	1,292,445	-	-	1,845,000	(1,292,445)	1,845,000
Total Noncurrent Liabilities	4,497,381	-	-	3,120,000	(1,292,445)	6,324,936
Total Liabilities	6,150,545	172,501	-	3,415,000	(2,262,457)	7,475,589
NET POSITION						
Unrestricted Net Assets	9,543,583	1,676,152	-	1,001,470	-	12,221,205
Restricted Net Assets	-	246,479	-	-	-	246,479
Net Investment in Capital Assets	63,481,142	-	-	3,111,249	-	66,592,391
Total Net Assets	73,024,725	1,922,631	-	4,112,719	-	79,060,075
TOTAL LIABILITIES AND NET POSITION	\$ 79,175,270	\$ 2,095,132	\$ -	\$ 7,527,719	\$ (2,262,457)	\$ 86,535,664

See Accompanying Notes to the Financial Statements

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED MARCH 31, 2016

	Low-Rent Public Housing	Housing Choice Voucher	Other Programs	Blended Component Unit	Eliminations	2016 TOTAL
OPERATING REVENUES						
Tenant Charges	\$ 2,558,740	\$	\$	\$	\$	\$ 2,558,740
HUD Operating Grants	9,015,698	12,326,994	50,581			21,393,273
Other Income	2,648,013	9,791			(1,672,755)	985,049
TOTAL REVENUES	14,222,451	12,336,785	50,581	-	(1,672,755)	24,937,062
OPERATING EXPENSES						
Administrative Expenses	4,872,737	949,126	50,581		(1,672,755)	4,199,689
Tenant Services	231,354	599				231,953
Utilities Expenses	2,495,335	4,204				2,499,539
Ordinary Maintenance	3,489,421	2,230				3,491,651
Protective Services	751,121	20,206				771,327
General Expenses	740,560	33,524				774,084
Housing Assistance Payments		11,211,602				11,211,602
Casualty Losses						-
Interest Expense				178,710		178,710
Depreciation Expense	1,446,290			40,522		1,486,812
TOTAL OPERATING EXPENSES	14,026,818	12,221,491	50,581	219,232	(1,672,755)	24,845,367
OPERATING INCOME (LOSS)	195,633	115,294	-	(219,232)	-	91,695
NON-OPERATING REVENUES AND (EXPENSES)						
Interest Income		75		38,443		38,518
Gain/(Loss) on Disposal of Assets						-
Total Non-Operating Income/(Loss)	-	75	-	38,443	-	38,518
CAPITAL CONTRIBUTIONS AND (LOSSES)						
HUD Capital Grants	4,984,850					4,984,850
CHANGES IN NET POSITION	5,180,483	115,369	-	(180,789)	-	5,115,063
BEGINNING NET POSITION	67,844,242	1,807,262		4,293,508		73,945,012
ENDING NET POSITION	\$ 73,024,725	\$ 1,922,631	\$ -	\$ 4,112,719	\$ -	\$ 79,060,075

See Accompanying Notes to the Financial Statements

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2016**

EXHIBIT D

FEDERAL GRANTOR	CFDA #	FEDERAL AWARDS EXPENDED	TOTAL PROGRAM EXPENDITURES
Major Federal Programs - U S Department of Housing and Urban Development			
<u>Low-Income Rental Housing Programs</u>			
Public and Indian Housing	14.850	\$ 6,608,488	\$ 11,023,751
Public Housing Capital Fund	14.872	<u>7,392,062</u>	<u>7,392,062</u>
Total Low-Income Rental Housing Programs		14,000,550	18,415,813
<u>Housing Choice Voucher Cluster</u>			
Section 8 Housing Choice Voucher Program	14.871	<u>11,931,166</u>	<u>11,429,721</u>
Total Major Federal Program		25,931,716	29,845,534
Non-Major Federal Program - U S Department of Housing and Urban Development			
<u>Section 8 Project Based Cluster</u>			
Lower Income Housing Assistance Prog._Sec. 8 Moderate Rehabilitation	14.856	395,828	403,333
<u>Other Non-Major Programs</u>			
Resident Opportunity and Self Sufficiency	14.870	<u>50,581</u>	<u>50,581</u>
Total Non-Major Federal Program		446,409	453,914
Total All Programs - U S Department of Housing and Urban Development		<u>\$ 26,378,125</u>	<u>\$ 30,299,447</u>

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2016**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the City of Gary, Indiana (the Authority), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Authority's financial statements.

The schedule summarizes the federal funds expended by the Authority under programs of the federal government during the year ended March 31, 2016. The awards are classified into major and non-major program categories in accordance with the provisions of the Uniform Guidance. The schedule of expenditures of federal awards displays the Authority's expenditures charged to federal programs for the year ended March 31, 2016, and should be read in conjunction with the Authority's consolidated financial statements.

The Authority has not elected to use the 10% de minimis direct cost rate as allowed under the Uniform Guidance.

Note 2 - Sources of Funding

The schedule includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government, as well as federal funds passed-through to the Authority by primary recipients. The Authority provided no part of its direct grant federal dollars to sub-recipients.

Note 3 - Sub-recipients

There were no sub-recipients for the year ended March 31, 2016.

Note 4 - Loans Outstanding

There were no federal loans outstanding for the year ended March 31, 2016.

Note 5 - Non-Cash Assistance

The Authority provided no non-cash assistance for the year ended March 31, 2016.

Note 6 - Insurance

The Authority had no federal insurance for the year ended March 31, 2016.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
 STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED
 FOR THE YEAR ENDED MARCH 31, 2016**

EXHIBIT E

<p>ANNUAL CONTRIBUTION CONTRACT C - 348 PHASES IN 36P011 - 501-10, 501-11, 501-12, 501-13 AND 501-14</p>
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	501-10	501-11	501-12	501-13	501-14	Total
Funds Approved	\$ 4,601,056	\$ 3,798,787	\$ 3,026,819	\$ 2,899,400	\$ 3,022,998	\$ 17,349,060
Funds Expended	<u>2,971,011</u>	<u>3,443,163</u>	<u>3,026,819</u>	<u>1,578,751</u>	<u>1,573,536</u>	<u>12,593,280</u>
Excess \ (Deficit) of Funds Approved	<u>\$ 1,630,045</u>	<u>\$ 355,624</u>	<u>\$ -</u>	<u>\$ 1,320,649</u>	<u>\$ 1,449,462</u>	<u>\$ 4,755,780</u>
Funds Advanced	\$ 2,485,625	\$ 3,443,163	\$ 3,026,819	\$ 1,578,751	\$ 1,529,208	\$ 12,063,566
Funds Expended	<u>2,971,011</u>	<u>3,443,163</u>	<u>3,026,819</u>	<u>1,578,751</u>	<u>1,573,536</u>	<u>12,593,280</u>
Excess \ (Deficit) of Funds Advanced	<u>\$ 485,386</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,329</u>	<u>\$ 529,714</u>

- 1 Capital Fund Program costs for Phases IN 36P-501-10, 501-11, 501-12, 501-13 and 501-14 are shown above.
- 2 Cost additions during this fiscal year, totaled \$6,113,673, and were audited by VB&C.

HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
 STATEMENT OF CAPITAL FUND PROGRAM COST COMPLETED
 FOR THE YEAR ENDED MARCH 31, 2016

EXHIBIT F

ANNUAL CONTRIBUTION CONTRACT C - 348 PHASES IN36PO11 - 501-09
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	501-09	Total
Funds Approved	\$ 4,616,580	\$ 4,616,580
Funds Expended	<u>4,616,580</u>	<u>4,616,580</u>
Excess \ (Deficit) of Funds Approved	<u>\$ -</u>	<u>\$ -</u>
Funds Advanced	\$ 4,616,580	\$ 4,616,580
Funds Expended	<u>4,616,580</u>	<u>4,616,580</u>
Excess \ (Deficit) of Funds Advanced	<u>\$ -</u>	<u>\$ -</u>

- 1 The total costs of the Modernization costs of the Mordernization grant is shown above.
- 2 All Modernization work in connection with the Modernization have been completed.
- 3 The entire actual modernization costs or liabilities therefore incurred by the Authority have been fully paid;
- 4 There are no undischarges mechanics', laborers contractors', or material-men leins against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work; and
- 5 The time in which such lein could be filed has expired.

SINGLE AUDIT REPORTS

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards**

Board of Commissioners
Housing Authority of the City of Gary, Indiana
Gary, Indiana

U.S. Department of Housing and Urban
Development
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

We have audited the financial statements of the business activities of the Housing Authority of the City of Gary, Indiana (the Authority) as of and for the year ended March 31, 2016, which collectively comprised the Authority's basic financial statements, and have issued a Modified report thereon dated December 6, 2016. We conducted our 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 our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the

accompanying schedule of findings and questioned costs that we consider to be significant deficiencies 2016-001.

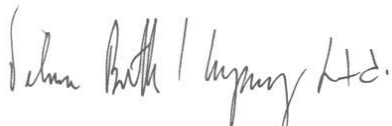
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on 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.



Velma Butler & Company, Ltd.
Chicago, Illinois

December 6, 2016

**Report on Compliance for Each Major Program; and Report on
Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Gary, Indiana
Gary, Indiana

U.S. Department of Housing and Urban
Development
Indianapolis Office
Minton-Capehart Federal Building
575 North Pennsylvania, Room 655
Indianapolis, Indiana 46204

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Gary, Indiana (the Authority)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended March 31, 2016. The Authority'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, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority 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 March 31, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal controls over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority'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 auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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.

Our consideration of the internal controls over compliance was for the limited purpose described in the first paragraph of this section and was not design to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended March 31, 2016, and have issued our report thereon dated December 6, 2016, which contained an modified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purpose of additional analysis as required by the Uniform Guidance 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 our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Velma Butler & Company, Ltd.
Chicago, Illinois

December 6, 2016

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016

Section II - Financial Statement Findings and Questioned Costs

Finding 2016 - 001 Weaknesses in Internal Control (*Significant Deficiency*)

Condition:

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions recorded in its accounting records were accurate.

Criteria

CFR 2 Part 200, Subpart D § 200.302(b)(4): The financial management system of each non-Federal entity must provide for effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §200.303 Internal controls.

CFR 2 Part 200, Subpart D § 200.303(a): The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Cause:

Management has not fully reviewed and corrected beginning account balances from prior period errors or misstatements.

Effect:

Management is in the process of reviewing and correcting beginning account balances for prior period errors or misstatements. While the process is ongoing, some beginning account balances have not been fully vetted and thus those balances were not sufficient to allow us to place reasonable assurance on the completeness of accounting records for the balances. Accordingly, it was not practicable for us to extend our audit procedures beyond the records available to us for balances not fully vetted.

This is a repeat finding in the prior year, fiscal year 2015 (reference number: 2015-01).

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Recommendation:

We recommend that the Authority ensures its internal control for appropriately recording, processing, and reporting all transactions in the proper account and accounting period in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net position in accordance with generally accepted accounting practices, laws, regulations and the provisions of contract and grant agreements.

Authority Action Plan:

The GHA concurs with the Auditor's recommendation. While successful in resolving several longstanding accounting issues, the GHA will continue its efforts to make the required improvements to its accounting and reporting systems. The Comptroller will continue to oversee the process of correcting GHA balances.

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016

Section III - Federal Award Findings and Questioned Costs

Finding 2016 - 002 Improperly Recorded Obligations

Information on the Federal Program:

U.S. Department of Housing and Urban Development

CFDA 14.872 - Public Housing Capital Fund:

Federal Award ID and Year: 1. 092-800360, 092-801604 - 2010 Capital Fund, 2. 092-803692 - 2013 Capital Fund 3. 092-800511 - 2014 Capital Fund

Condition:

Four transactions for capital funds that were found to have incurred in fiscal year 2016, but were not expensed and paid until fiscal year 2017. The liabilities were not recorded until fiscal year 2017 when paid. Total questioned costs were \$43,374.

Criteria or Requirement:

CFR 2 Part 200, Subpart E § 200.400(d): The application of federal cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with federal cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.

Cause:

The Authority did not record the expense or liabilities for incurred transactions until funds were requested, approved from HUD, and deposited in the bank account.

Effect:

Inaccurate reliability of reporting for internal and external use.

Prevalence:

This appeared to be isolated instances based on the judgmental sample selected.

Prior Year Identification:

None

Recommendation:

We recommend that the Authority record all liabilities when the obligation occurs to ensure compliance with the uniform guidance and generally accepted accounting principles.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Authority's Action Plan:

The GHA concurs with the Auditor's recommendation. The GHA has made a number of administrative and accounting-related improvements in its Capital Fund Program, including meeting several HUD-imposed obligation and expenditure deadlines. The GHA will continue its efforts to further strengthen its administration of the Capital Fund Program. The Comptroller will continue to oversee the process of updating GHA's policies and procedures.

Finding 2016 - 003 Funds Not Disbursed in Accordance with Budget

Information on the Federal Program:

U.S. Department of Housing and Urban Development

CFDA 14.872 - Public Housing Capital Fund:

Federal Award ID and Year: 1. Line 1430, 1450, 1465 - 2009 Capital Fund, 2. Line 1430 - 2011 Capital Fund, 3. Line 1460 - 2013 Capital Fund

Condition:

The Authority did not always ensure compliance with HUD procedures for capital grant funds. The Authority spent funds and requested reimbursements that were not in accordance with amounts in the capital funds budgets approved by HUD.

We noted several instances where the Authority did not adhere to budgeted line items thus funds were spent and reimbursements requested for amounts that were not in agreement with approved line items. For example, the Authority drew down funds under the line item 1430 budgeted and approved for fees and costs, yet the monies were spent for pest control. Total questioned costs were \$1,225,905.

Criteria or Requirement:

CFR 2 Part 200, Subpart D § 200.308(g)(3): For construction Federal awards, the recipient must request prior written approval promptly from the Federal awarding agency for budget revisions whenever a revision is desired which involves specific costs for which prior written approval requirements may be imposed consistent with applicable OMB cost principles listed in Subpart E - Cost Principles.

Cause:

Staff requested reimbursement for expenditures incurred under available budgeted line items.

Effect:

Budgeted line items would not agree to actual activity performed and approved.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Prevalence:

This appeared to be isolated instances based on the judgmental sample selected.

Prior Year Identification:

None

Recommendation:

The Authority follows its policy and ensures that comply with HUD procedure are followed. Funds should to be spent according to the budgeted line items. Budget revisions should be requested when expenditures are not in accordance with to the budgeted line item.

Authority's Action Plan:

The GHA concurs with the Auditor's recommendation. The GHA has made a number of administrative and accounting-related improvements in its Capital Fund Program, including meeting several HUD-imposed obligation and expenditure deadlines. The GHA will continue its efforts to further strengthen its administration of the Capital Fund Program. The Comptroller will continue to oversee the process of updating GHA's policies and procedures.

Finding 2016 - 004 Wage Rate Requirements

Information on the Federal Program:

U.S. Department of Housing and Urban Development

CFDA 14.872 - Public Housing Capital Fund:

Federal Award ID and Year: April 1, 2015 - March 31, 2016

Condition:

The Authority did not maintain documentation to assure compliance with the Davis-Bacon wage rate requirements.

We tested eight (8) capital grant fund program contracts and noted the following:

- Six files did not contain an employee interview to verify proper wage payout,
- One file did not contain a signed agreement which included language to demonstrate compliance with the Davis-Bacon wages or language on payment on the prevailing wages to employees,
- One file did not contain support to demonstrate the payment of prevailing wage rates to employees for the contract.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Criteria or Requirement:

Davis-Bacon Act wage requirements require the payment of prevailing wages and are applicable to HUD programs by statutory provisions in the Davis-Bacon Act, itself.

Cause:

Contracted parties were not fully aware of documentation to retain to properly document requirements.

Effect:

Proper compliance to federal requirements was not assured when contracting labor for services.

Prevalence:

This appeared to be isolated instances based on the judgmental sample selected.

Prior Year Identification:

None

Recommendation:

We recommend that the Authority strengthen its record documentation and procedures to assure adherence to all the Davis-Bacon requirements.

Authority's Action Plan:

The GHA concurs with the Auditor's recommendation. The GHA will continue to make the necessary improvements in the administration and execution of contracts to ensure compliance with all applicable regulatory rules and requirements. The Comptroller will ensure compliance with requirements.

Finding 2016 - 005 Procurement and Contract Requirements

Information on the Federal Program:

U.S. Department of Housing and Urban Development

CFDA 14.850 - Public and Indian Housing:

Federal Award ID and Year: April 1, 2015 - March 31, 2016

Condition:

The Authority did not maintain adequate documentation to assure compliance with procurement and contract regulations for all programs.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Two vendors' files for the low rent administrative activities did not contain the required procurement documentation. One vendor's file contained only a signed agreement and the second vendor's file did not contain any contracting information at all. Neither vendor file contained information which demonstrated that services were competitively procured. Total questioned costs were \$206,340.

Criteria or Requirement:

HUD regulations require each authority to establish and follow a written procurement policy that is consistent with 24 CFR 85.36. Records should include, but not necessarily be limited, to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Cause:

Vendors were procured outside of procurement officer due to prior relationship. Thus files were not updated to adhere to current requirements.

Effect:

Procured services could be spent ineffectively and/or inefficiently.

Prevalence:

This appeared to be isolated instances based on the judgmental sample selected.

Prior Year Identification:

None

Recommendation:

We recommend that the Authority maintain documentation which demonstrates that services are competitively procured or why they were not.

Authority's Action Plan:

The GHA concurs with the Auditor's recommendation. The GHA will continue to make the necessary improvements to its procurement systems to ensure compliance with all applicable regulatory rules and requirements. The Comptroller will ensure that procurement is in compliance.

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016

Finding 2016 - 006 Reporting Requirements

Information on the Federal Program:

U.S. Department of Housing and Urban Development

CFDA 14.871 - Section 8 Housing Choice Vouchers:
Federal Award ID and Year: April 1, 2015 - March 31, 2016

Condition:

The Authority did not submit the required year-end assessment reporting for the Section 8 program to HUD before the deadline and did not document that it had received an extension. As of December 6, 2016, the form had not been submitted.

Criteria or Requirement:

HUD regulations require SEMAP certification form which requires a PHA administering the housing choice voucher program to submit an annual SEMAP Certification within 60 days after the end of its fiscal year.

Cause:

The Authority prepared the document, but did not gain approval, upload and submit prior to the deadline.

Effect:

SEMAP score will be low and Authority could receive fewer benefits in comparison to other authorities.

Prevalence:

Isolated instance

Prior Year Identification:

None

Recommendation:

We recommend that the Authority implement procedures which require it to perform all certification, verification, and submission prior to any HUD deadlines.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

Authority's Action Plan:

The GHA concurs with the Auditor's recommendation, and will establish and implement procedures to ensure the timely submission of the SEMAP Certification. The Deputy Director will ensure that reports are submitted timely.

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016

<u>Prior Year Findings</u>	<u>Status</u>	<u>Page Number</u>
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Financial Statement Findings and Questioned Cost

- | | | |
|---|----------------------|----|
| 1. Weaknesses in Internal Control, 2015-001 | Open
(Since 2009) | 48 |
| 2. Failure in Complying with Check Signing Policy, 2015-002 | Closed | |

Federal Award Findings and Questioned Cost

- | | | |
|---|----------------------|----|
| 1. Weaknesses in Internal Control, 2015-001 | Open
(Since 2009) | 50 |
| 2. Failure in Complying with Check Signing Policy, 2015-002 | Closed | |
| 3. Deficiencies in Low Income Housing Program, 2015-003 | Closed | |

THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016

Section II - Financial Statement Findings and Questioned Costs

Finding 2015 - 001 Weaknesses in Internal Control (Significant Deficiency)

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions recorded in its accounting records were accurate.

Management is in the process of reviewing and correcting beginning account balances for prior period errors or misstatements. While the process is ongoing, some beginning account balances have not been fully vetted and thus those balances were not sufficient to allow us to place reasonable assurance on the completeness of accounting records for the balances. Accordingly, it was not practicable for us to extend our audit procedures beyond the records available to us for balances not fully vetted.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

Finding 2015 - 002 Failure in Complying with Check Signing Policy (Significant Deficiency)

The Authority did not comply with its check signing and authorization policy.

Checks written in excess of \$100,000 and/or more must be hand signed by the Executive Director and the Chairman of Board Commissioner's; per its policy.

During our review of expenditures, we noted a check written in excess of \$100,000 did not have two authorized signatures.

The Authority should follow its written policies and procedures which were established to safeguard assets.

Section III - Federal Award Findings and Questioned Costs

Finding 2015 - 001 Weaknesses in Internal Control (Significant Deficiency)

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions recorded in its accounting records were accurate.

Management is in the process of reviewing and correcting beginning account balances for prior period errors or misstatements. While the process is ongoing, some beginning account balances have not been fully vetted and thus those balances were not sufficient to allow us to place reasonable assurance on the completeness of accounting records for the balances. Accordingly,

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2016**

it was not practicable for us to extend our audit procedures beyond the records available to us for balances not fully vetted.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

Finding 2015 - 002 Failure in Complying with the Check Signing Policy (CFDA 14.872)
(Significant Deficiency)

The Authority did not comply with its check signing and authorization policy.

Checks written in excess of \$100,000 and/or more must be hand signed by the Executive Director and the Chairman of Board Commissioner's; per its policy.

During our review of expenditures, we noted a check written in excess of \$100,000 did not have two authorized signatures.

The Authority should follow its written policies and procedures which were established to safeguard assets.

Finding 2015 - 003 Deficiencies in Low Income Housing Program (CFDA 14.871) Tenant File Documentation (Other Matter)

The Authority did not maintain documentation to assure compliance with housing quality standards.

We tested forty (40) Low Income Housing Program tenant files and noted the following:

- One file did not contain a signed lease or rental agreement,

HUD Regulations requires the Authority to maintain complete and accurate tenant files, which consist of annual re-certification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF COMPLIANCE WITH
SECTION 8 MANAGEMENT ASSESSMENT PROGRAM
FOR THE YEAR ENDED MARCH 31, 2016**

Velma Butler & Company, Ltd. audited the Authority's compliance with the Section 8 Housing Management Assessment Program, which had not been filed.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA
STATEMENT OF COMPLIANCE WITH
PUBLIC HOUSING ASSESSMENT SYSTEM
FOR THE YEAR ENDED MARCH 31, 2016**

Velma Butler & Company, Ltd. audited the Authority's compliance with the Public Housing Assessment System Program and did not note any material instances of noncompliance.

**Gary Housing Authority
Corrective Action Plans FY 2016**

Section II - Financial Statement Findings and Questioned Costs

Finding 2016-01 Weaknesses in Internal Control (Significant Deficiency)

Corrective Action Plan:

To improve GHA's internal control system, Jeffery Bennett, the current Finance contractor, and Starlene Williams, Controller, plan to continue to: (1) make the necessary corrections to the books and records; (2) update financial policies and procedures; (3) hire capable and experienced financial staff; (4) provide staff training; and (5) develop and implement monthly checklists for staff to follow to ensure that required periodic tasks, including account reconciliations, are timely and accurately completed.

(Estimated Completion Date: 7.31.17)

Section III - Federal Award Findings and Questioned Costs

Finding 2016-01 Weaknesses in Internal Control (Significant Deficiency)

Corrective Action Plan

To improve GHA's internal control system, Jeffery Bennett, the current Finance contractor, and Starlene Williams, Controller, plan to continue to: (1) make the necessary corrections to the books and records; (2) update financial policies and procedures; (3) hire capable and experienced financial staff; (4) provide staff training; and (5) develop and implement monthly checklists for staff to follow to ensure that required periodic tasks, including account reconciliations, are timely and accurately completed.

(Estimated Completion Date: 7.31.17)

Finding 2016-02 Improperly Recorded Obligations (CFDA 14.872) (Other Matter)

Corrective Action Plan:

Jeffery Bennett, the current Finance contractor, and Starlene Williams, Controller, plan to continue to: (1) further strengthen the administration of the Capital Fund Program through staff training; (2) develop and implement monthly checklists for staff to follow; and (3) provide increased oversight to ensure all relevant liabilities are properly recognized in the period in which they occurred. (Estimated Completion Date: 6.30.17)

Finding 2016-03 Funds Not Disbursed in Accordance with Budget (CFDA 14.872) (Other Matter)

Corrective Action Plan:

Jeffery Bennett, the current Finance contractor, and Starlene Williams, Controller, plan to continue to: (1) further strengthen the administration of the Capital Fund Program through staff training; (2) develop and implement monthly checklists for staff to follow; and (3) provide increased oversight to ensure all relevant funds are disbursed from the correct budget line. (Estimated Completion Date: 6.30.17)

Finding 2016-04 Wage Rate Requirements (CFDA 14.872) (Other Matter)

Corrective Action Plan:

Jeffery Bennett, the current Finance contractor and Taryl Bonds, Chief Procurement Officer, plan to continue to: (1) further strengthen procurement and contract administration through staff training; (2) develop and implement checklists for staff to follow; and (3) provide increased oversight to ensure compliance with all Davis-Bacon related requirements. (Estimated Completion Date: 7.31.17)

Finding 2016-05 Procurement and Contract Requirements (CFDA 14.871) (Other Matter)

Corrective Action Plan:

Jeffery Bennett, the current Finance contractor and Taryl Bonds, Chief Procurement Officer, plan to continue to: (1) further strengthen procurement and contract administration requirements through staff training; (2) develop and implement checklists for staff to follow; and (3) provide increased oversight to ensure compliance with all procurement and contract administration related requirements. (Estimated Completion Date: 7.31.17)

Finding 2016-06 Reporting Requirements (CFDA 14.871) (Other Matter)

Corrective Action Plan:

Jeffery Bennett, the current Financial contractor and Jillian Baldwin, Deputy Executive Director, plans to: (1) provide appropriate staff training; (2) ensure that staff has appropriate submission permissions; and (3) create calendar that lists reports, including due dates, to ensure that all such reports are timely and accurately completed and submitted. (Estimated Completion Date: 5.31.17)