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November 19, 2019

Board of Commissioners
Housing Authority of the City of East Chicago
P.O. Box 498
4920 Larkspur Drive
East Chicago, IN 46312

We have reviewed the audit report of the Housing Authority of the City of East Chicago, which was opined upon by Velma Butler & Company, Ltd., Independent Public Accountant, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the Housing Authority of the City of East Chicago, as of December 31, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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


Paul D. Joyce, CPA
State Examiner

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED
DECEMBER 31, 2017,
INCLUDING SINGLE AUDIT REPORTS
AND SUMMARY OF AUDITORS' RESULTS

HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of East Chicago
East Chicago, IN 46516

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 primary government business type activities and the component unit of the Housing Authority of the City of East Chicago, Indiana (Authority), as of and for the year ended December 31, 2017, 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.

Opinions

In our opinion, based on our audit and the audit report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary government and the component unit of the Authority, as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows 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 through 10 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of 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 purposes 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 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. In our opinion, the accompanying supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2018 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.

A handwritten signature in cursive script that reads "Velma Butler & Company, Ltd." The signature is written in dark ink and is positioned above the printed name of the firm.

Velma Butler & Company, Ltd.
Chicago, Illinois

September 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Housing Authority of the City of East Chicago, Indiana
4444 Railroad Ave
East Chicago, IN 46516
PHONE (219) 397-9974 FAX (219) 397-4249

To the Board of Commissioners
Housing Authority of the City of East Chicago, Indiana
East Chicago, IN 46516

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Housing Authority of the City of East Chicago, Indiana (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on December 31, 2017. The management's discussion and analysis includes information on the past, present and future events that have been enacted, adopted, agreed upon, and/or contracted by the Authority. It focuses on analysis of the financial statements and the improvements in the Authority's management.

We are pleased to submit the financial statements of the Authority for the year ended December 31, 2017. 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 that complies with reporting requirements of the U.S. Department of Housing and Urban Development ("HUD") and the Governmental Accounting Standards Board. 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.

FINANCIAL HIGHLIGHTS

- Total assets were \$7.1 million at December 31, 2017, and decreased by \$1.5 million from \$8.6 million at December 31, 2016, mainly due to changes in cash and accumulated depreciation.
- Net capital assets were \$4 million at December 31, 2017, and decreased \$316 thousand from \$4.3 million at December 31, 2016. This was primarily due to depreciation of assets.
- Total liabilities decreased by \$654 thousand to \$430 thousand at December 31, 2017 from \$1,084 thousand at December 31, 2016. Primarily due to changes in deferred inflow of resources.
- Total net position was \$6.7 million at December 31, 2017, a decrease of about \$806 thousand from prior year balance of \$7.5 million.

- Total revenue was \$11.47 million at December 31, 2017, a decrease of \$274 thousand from the December 31, 2016, balance of \$11.74 million. The decrease was primarily due to a decrease from tenant rents due to closing of amp and reduction in component unit activity.
- Total expenses increased by \$1.4 million to \$12.3 million at December 31, 2017 from \$10.9 million at December 31, 2016.

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 the net position are reported as soon as the underlying event given 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 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 an enterprise fund whose operations include the low rent, housing choice voucher programs, and a blended component unit.

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 funds only consisted of a *Proprietary Fund*.

The Authority's *Proprietary Fund* is comprised of 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.

Low-Rent Public Housing - Under the Low Rent Housing Program, the Authority rents units it owns to low-income families. The Low Rent 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 a family's adjusted gross household income.

Capital Fund Program (CFP) - The Low Rent 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 Choice Vouchers - The Housing Choice Voucher is the federal government's programs for assisting 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.

Component Unit - If the Authority has oversight responsibility, including financial accountability, appointment of voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the Authority includes all component units of which the Authority appointed a voting majority of the units' board; the Authority is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units - Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Authority's Board of Commissioners of the component unit provides services entirely to the Authority.

Additionally, the Authority is required to undergo an annual single audit as required by 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 both long-term and short-term 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.

Table 1
East Chicago Housing Authority's Net Position
(in thousands dollars)

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent of Change</u>
Current Assets	\$ 3,072	\$ 4,215	\$ (1,143)	-27.1%
Capital Assets, Net	4,030	4,346	(316)	-7.3%
Non-Current Assets	1	2	(1)	-50.0%
Total Assets	<u>\$ 7,103</u>	<u>\$ 8,563</u>	<u>\$ (1,460)</u>	-17.1%
Current Liabilities	\$ 387	\$ 541	\$ (154)	-28.5%
Other Non Current Liabilities	43	543	(500)	-92.1%
Total Liabilities	<u>430</u>	<u>1,084</u>	<u>(654)</u>	-60.3%
Invested in Capital Assets, Net	4,030	4,346	(316)	-7.3%
Unrestricted	2,643	2,436	207	8.5%
Restricted	-	697	(697)	-100.0%
Total Net Position	<u>6,673</u>	<u>7,479</u>	<u>(806)</u>	-10.8%
Total Liab. and Net Position	<u>\$ 7,103</u>	<u>\$ 8,563</u>	<u>\$ (1,460)</u>	-17.1%

As shown in Table 1, the Authority's total net position at December 31, 2017, was approximately \$7.1 million, a 17.1 percent decrease from the December 31, 2016, balance of \$8.6 million.

Capital Assets

Capital assets decreased by approximately \$316 thousand from \$4.3 million to \$4 million, as shown in the table below:

Table 2
East Chicago Housing Authority's Capital Assets

	December 31, 2016	Additions and Transfers in	December 31, 2017
Land	\$ 1,024,257	\$ 66,682	\$ 1,090,939
Building & Improvements	43,234,019	566,068	43,800,087
Furniture and Equipment	809,211	(19,808)	789,403
Construction in Progress	356,863	(356,863)	
(Less) Accumulated Depr.	(41,078,455)	(571,664)	(41,650,119)
Total Capital Assets	\$ 4,345,895	\$ (315,585)	\$ 4,030,310

Depreciation expense was \$591,472. Construction in progress was completed and transferred to building and improvements, and capital additions were \$295,695. Disposals totaled \$19,808 in 2017.

Revenues

As shown in Table 3, the Authority's total operating revenues decreased to \$11.5 million by \$274 thousand or 2.3 percent for the year ended December 31, 2017.

Table 3
Change in East Chicago Housing Authority's Net Position
(in thousands)

Description	2017	2016	Change	Percent of Change
Operating Revenue	\$ 11,315	\$ 10,678	\$ 637	6.0%
Non-Operating Revenue	157	1,068	(911)	-85.3%
Total Revenue	11,472	11,746	(274)	-2.3%
Operating Expenses	11,687	10,272	1,415	13.8%
Depreciation	591	593	(2)	-0.3%
Total Expenses	12,278	10,865	1,413	13.0%
Change in Net Position	(806)	881	(1,687)	-191.5%
Beginning Net Position	7,479	6,598	881	13.4%
Ending Net Position	\$ 6,673	\$ 7,479	\$ (806)	-10.8%

Expenses

Total operating expenses, including depreciation, decreased by \$1.4 million or 13 percent for a total balance of \$12.3 million for the year ended December 31, 2017. Changes are shown below in Table 4:

Table 4
East Chicago Housing Authority's Operating Expenses
(in thousands)

Description	2017	2016	Change	Percent of Change
Administrative Expenses	\$ 2,258	\$ 2,555	\$ (297)	-11.6%
Tenant Services	394	678	(284)	-41.9%
Utilities Expenses	505	632	(127)	-20.1%
Ordinary Maintenance	1,900	1,803	97	5.4%
Protective Services	253	266	(13)	-4.9%
Insurance Expense	433	285	148	51.9%
General Expenses	306	431	(125)	-29.0%
Extraordinary Maintenance	52	32	20	62.5%
Casualty Losses	-	13	(13)	-100.0%
Housing Assistance Payments	5,587	3,577	2,010	56.2%
Depreciation Expense	591	593	(2)	-0.3%
Total Operating Expenses	\$ 12,279	\$ 10,865	\$ 1,414	13.0%

Expenses primarily increased in insurance expenses and housing assistance payments, which was offset by decreases in administrative, tenant services, and general expenses.

BUDGETARY CONTROL

Management submits a proposed operating budget for revenues and expenses for all programs, functions, activities, or objectives for the following fiscal year to the governing body ("Board"). The Board reviews, approves and adopts the budget. Operating monies are determined by rents and operating subsidies provided by HUD, as established by Congress. The operating subsidy is dependent on the availability of federal funds.

The Authority prepares annual five year budgets for its capital grants and project budget for other grants. Capital project budgets are approved and are adopted for five years by the Board 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.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

1. Federal funding received by the Authority from the Department of Housing and Urban Development (HUD) related to Public and Indian Housing Program Operating Subsidy increased by approximately \$200,000 from 2016 due to a reduced proration percentage applied to those funds through Congressional appropriation. For 2016 Operating Subsidy revenue was received equal to approximately 90% of full funding eligibility. For 2017 Operating Subsidy revenue was received equal to approximately 93% of full funding eligibility.
2. Both Section 8 Housing Choice Voucher Program HAP funding and Section 8 Administrative funding received for 2017 were significantly higher than 2016 due to increased leased vouchers in 2017. The increased issued and leased vouchers resulted primarily from tenant protection vouchers issued to displaced families and individuals who formerly resided at the West Calumet (AMP 3) public housing complex. The tenant protection vouchers increased the Authority's number of ACC vouchers allowed from 697 at the start of 2017 to 1,029 at year end.

The West Calumet complex was condemned in 2016 as a result of Environmental Protection Agency "EPA" testing which revealed lead and arsenic soil contamination levels above an acceptable level at the site. As a result of that determination the Authority provided relocation assistance to all tenants residing in West Calumet complex units as of the date imminent health and safety notices were mailed by the EPA. As part of that relocation assistance, Section 8 tenant protection vouchers were provided by HUD and offered to all tenants as a relocation option.

The majority of tenants were relocated in 2016, and all remaining tenants were relocated prior to July 2017. Rent was abated and was not charged to any remaining tenants from November 1, 2016 onward.

Effective September 1, 2018 HUD approved the Authority's Section 18 Demo-Dispo application related to the West Calumet site and the related units were removed from the Authority's Public Housing stock. At December 31, 2017, the planning process was underway to demolish the vacant complex.

While the issuance of tenant protection vouchers increased the Authority's Section 8 Housing Assistance Payment revenue and expenses, it had a negative impact on their Public Housing funding and operations. Management has subsequently reduced staffing and other expenses as a result of the reduced Public Housing revenues.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This Authority's financial report is designed to provide a general overview of the Authority's finances for all those with an interest and to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Christopher Vincent, Finance Director, the Housing Authority of the City of East Chicago, Indiana 4444 Railroad Ave, East Chicago, Indiana 46312 or call (219) 397-9974.

FINANCIAL STATEMENTS

THE HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA
STATEMENT OF NET POSITION
PROPRIETARY TYPE FUNDS - ENTERPRISE FUNDS
DECEMBER 31, 2017

EXHIBIT A

	2017 TOTAL AUTHORITY
ASSETS	
Cash and Cash Equivalents, net	\$ 1,429,405
Accounts Receivable (net of allowances)	1,414,199
Prepays, Deposits and Escrows	41,613
Inventory (net of allowances)	186,839
TOTAL CURRENT ASSETS	<u>3,072,056</u>
Other Assets	505
Capital Assets, Net	4,030,310
TOTAL NON-CURRENT ASSETS	<u>4,030,815</u>
TOTAL ASSETS	<u>\$ 7,102,871</u>
Deferred Outflows of Resources	-
LIABILITIES AND NET POSITION	
Accounts Payable	\$ 186,505
Tenant Security Deposits	57,496
Deferred Revenue - Prepays	7,009
Accrued Liabilities - Current	136,210
TOTAL CURRENT LIABILITIES	<u>387,220</u>
FSS Escrow Deposits	43,082
TOTAL NON-CURRENT LIABILITIES	<u>43,082</u>
TOTAL LIABILITIES	<u>430,302</u>
Deferred Inflows of Resources	-
Net Position Invested in Capital Assets	4,030,310
Unrestricted Net Position	2,642,259
Restricted Net Position	-
TOTAL NET POSITION	<u>6,672,569</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,102,871</u>

See accompanying notes to the financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
PROPRIETARY TYPE FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

EXHIBIT B

	2017 TOTAL AUTHORITY
OPERATING REVENUES	
Net Tenant Rental Revenue	\$ 1,124,328
HUD Operating Grants	9,328,924
Other Income	862,159
TOTAL OPERATING REVENUES	11,315,411
OPERATING EXPENSES	
Administrative Expenses	2,257,692
Tenant Services	394,173
Utilities Expense	504,654
Ordinary Maintenance and Materials	1,900,335
Protective Services	252,236
Insurance Expense	433,251
General Expenses	306,300
Extraordinary Maintenance	52,024
Housing Assistance Payments	5,586,832
Depreciation Expense	591,472
TOTAL OPERATING EXPENSES	12,278,969
OPERATING INCOME (LOSS)	(963,558)
NON-OPERATING REVENUES (EXPENSES)	
Interest	3,603
INCOME BEFORE OTHER REVENUES (EXPENSES)	3,603
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital Contributions	144,900
Gain/(Loss) Disposal of Equipment	9,015
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	153,915
CHANGE IN NET POSITION	(806,040)
NET POSITION AT BEGINNING OF PERIOD	7,478,609
NET POSITION AT END OF PERIOD	\$ 6,672,569

See accompanying notes to the financial statements.

**THE HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA
STATEMENT OF CASH FLOWS
PROPRIETARY TYPE FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

EXHIBIT C

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Tenants and Others	\$ 11,317,013
Payments to Employees	(2,069,933)
Payments to Vendors and Suppliers	(11,150,092)
Net Cash (Used for) Operating Activities	(1,903,012)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	3,603
Net Cash Provided by Operating Activities	3,603
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES	
Capital Grants	144,900
(Purchase)/Sale of Capital Assets	(275,886)
Gain / (Loss) on Disposal of Assets	9,015
Net Cash (Used for) Financing Activities	(121,971)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,021,380)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	3,450,785
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ 1,429,405
Reconciliation of Cash and Cash Equivalents	
Unrestricted Cash and Cash Equivalents	\$ 1,328,827
Restricted Cash and Cash Equivalents - Current	100,578
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ 1,429,405
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Income	\$ (963,558)
Adjustments To Reconcile:	
Depreciation	591,472
Changes in Assets and Liabilities	
(Increase)/Decrease in Accounts Receivable	(972,643)
(Increase)/Decrease in Prepaid Expenses	104,740
(Increase)/Decrease in Material Inventories	(10,438)
(Increase)/Decrease in Other Assets	1,367
Increase/(Decrease) in Accounts Payable	23,485
Increase/(Decrease) in Accrued Liabilities	(139,775)
Increase/(Decrease) in FSS Escrow Deposits	(28,523)
Increase/(Decrease) in Deferred Inflows	(509,139)
Net Cash Provided by/(Used for) Operating Activities	\$ (1,903,012)
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES	
Interest Paid During the Year	\$ -

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**THE HOUSING AUTHORITY OF THE CITY OF EAST CHICAGO, INDIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 1 - Summary Of Significant Accounting Policies

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.

A. Organization and Program Description

The Housing Authority was established January 25, 1965 by the City of East Chicago pursuant to the laws of the State of Indiana, as a municipal corporation (IC36-7-18-14), to transact business and to have powers as defined therein to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) has direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of East Chicago and concluded the City does not maintain an oversight responsibility for the Authority's operations. However, the Housing Authority is a related organization to the City of East Chicago since an independent seven member Board of Commissioners appointed and removed by the Mayor of the City of East Chicago, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority.

Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Housing Authority of the City of East Chicago is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has a component unit that is presented in these financial statements under the blended method.

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:

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Public and Indian Housing Program - The Public and Indian 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 and capital repair funds from HUD. "Capital Funds," provided by HUD, are used to improve the physical condition, management and operation of existing public housing developments. The low rent housing program is reported as an enterprise fund.

Section 8 Housing Choice Voucher Program - The Authority participates in the Housing Choice Voucher Program. This program is 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 program, 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 program is also reported as an enterprise fund.

Various Other Grant Programs - The Authority participates in Resident Opportunity for Self Sufficiency (ROSS), and receives Local funding, which assists the needs of the residents.

B. Reporting Entity

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

Component Units

Blended Component Units

Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. The Authority included organizations as component units under the following financial accountability criteria: (1) Organizations for which the Authority appoints a voting majority of the organizations governing body and for which (a) the Authority is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Authority. (2) A financial benefit or burden relationship between the Authority and the component unit. (3) Management of the Authority has operational responsibility for the activities of the component unit.

The following is a brief description of the blended component unit meeting the above criteria that is included in the Authority's financial report entity.

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The non-profit is known as Managed East Chicago Housing Authority (MECHA). MECHA was formed to carry out or assist in carrying out low-income housing projects, including assistance by borrowing and lending funds, with an emphasis on low-income housing projects formed or financed in compliance with Section 8 of the United State Housing Act of 1937 and the regulations promulgated there under.

Separate financial statements for MECHA can be obtained by contacting the Executive Director of the Housing Authority of the City of East Chicago, Indiana.

C. 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.

D. Fund Accounting

Accounts are organized on the basis of funds. Each fund represents a separate program with a separate set of self-balancing accounts. All funds are reported as enterprise funds and are grouped as follows:

- PHA-Owned Housing consists of HUD-financed public housing owned by the Authority. Individual funds account for activities of the low-rent housing program, each capital fund phase, and the central office cost center. The funds are collectively called low rent housing.
- Section 8 Program consists of HUD payment of rents for tenants in privately owned housing and fees to the housing authority for operating the program. An individual fund is use for the Housing Choice Voucher Program.
- Various other programs which the Authority operates, including Residential Opportunity and Self Sufficiency, blended component units, and other various state and local programs are accounted for in individual funds.

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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 assets include cash legally restricted as to their use. The primary restricted assets are related to the low rent, component unit and housing choice voucher program for various funds restricted for tenants. The housing choice voucher program has additional restricted funds for future housing assistance payments.

Investments - Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40 *Deposit and Investment Risk Disclosures*. 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. GASB Statement No. 40 requires general disclosures by investment type with disclosures of the specific risks to which those investments are exposed. Investments exposed to credit risk, custodial credit risk, concentration of credit risk (5% of total net position), interest rate risk, and foreign currency risk must be disclosed, and the government reporting unit is required to describe their deposit or investment policies (or the lack of a policy) that relate to the risks stated above, if they are subject to them.

Custodial Credit Risk

- a. Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned or that the Authority will not be able to recover collateral securities in the possession of an outside party.
- b. Investments - Custodial credit risk is the risk that in the event of the failure of the depository, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

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Credit Risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Housing Authority has no investment policy that limits its investment choices other than the limitation of state law and/or the Department of Urban Development regulations.

Concentrations of Credit Risk is the risk of loss attributed to the amount of the investment in a single issuer. The Authority does not have a formal investment policy covering the concentration of credit risk.

Investment Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Housing Authority has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Receivables - Receivables consist of all revenues earned at year-end, but not yet received. Allowances for uncollectible receivables are based on historical trends and periodic aging of receivables.

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 fund balance sheet.

Inventories - Inventories are valued at average cost and cost of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Risk Management - The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years and there has been no significant reduction in insurance coverage during the fiscal year.

Capital Assets - Capital Assets consist of assets purchased or acquired at a cost of \$5,000 or greater and an estimated useful life of one year or greater. All capital assets are stated at historical costs or estimated historical cost if actual cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Capital assets depreciated using straight-line method of depreciation over their estimated useful lives as follows:

Buildings	27-1/2 years
Equipment	5 years
Transportation Equipment	5 years
Furniture and Fixtures	5 years
Leasehold Improvements	10 years

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Compensated Absences – Vacation hours an employee is entitled to for the current year are placed into a new bank for immediate use (does not include new employees with less than one year of service). New employees must wait until their one year anniversary to take vacation. This new bank of vacation time must be taken in full by the end of the current year or it is lost. If an employee leaves the agency before the end of the year due to retirement, termination, resignation, job elimination, etc., any excess vacation hours not taken will be included in the final paycheck.

Employees' unused vacation hours as of December 31, 1997 were placed into an old bank but will be used until they have used all of their new vacation bank. Unused vacation time from the old bank as of December 31, 1997 will be paid out unless fully exhausted. Maximum vacation hours from the old bank an employee is entitled to if they leave the agency is still 360 hours. For all compensated absences, the expense is valued at the pay rates in effect at the end of the Authority's fiscal year.

Employees can accumulate a maximum of 240 hours of sick leave. For every three (3) months the accumulated sick leave is consistently 240 hours, the employee earns 8 additional hours of vacation leave the following month. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Vacation leave must be requested at least two (2) weeks in advance with available time verified by accounting and approved by the supervisor and the executive director. Vacation time is taken in increments of hours only (i.e. no quarter, half, and three-fourths hours).

Annual Leave

- A. Annual leave requests are granted on a seniority basis based on years of employment. Employees are required to take annual leave in the year in which it is received. Annual leave will not be advanced to employees except at the discretion of the executive director. Newly hired employees are not entitled to annual leave until they have successfully completed one full year of employment, except at the discretion of the executive director.
- B. All permanent full-time administrative employees shall receive a paid vacation after one full year of employment. Paid vacations will be granted as follows to employees according to years of service:
 - ½ on January 16, ½ on July 16
 - Less than five years - 12 days annually
 - More than 5 years, but less than 10 years - 18 days annually
 - Ten years or more - 24 days annually

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All permanent full-time maintenance employees shall receive a paid vacation after one full year of employment. Paid vacations will be granted as follows to employees according to years of service.

½ on January 16, ½ on July 16
Less than five years - 12 days annually
More than 5 years, but less than 10 years - 15 days annually
Ten years or more - 20 days annually

Accumulation of Vacation Time

Cumulative maximum carryover of unused leave at the beginning of any leave year may not exceed forty-five (45) days of vacation accrual for any employee, if applicable.

Net Position - Net position is comprised of three categories: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. Each component of net position is reported separately on the statement of net position.

(1) Investment in capital assets, net of related debt - 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 is directly attributable to the acquisition, construction or improvement of these capital assets.

(2) Restricted - 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.

(3) 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.

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fair Value - The Authority follows GASB Statement No. 72, Fair Value Measurement. This Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. The disclosures are organized by type asset or liability reported at fair value. The implementation has had no material impact on the financial statements of the Authority.

Retirement Plan - The Authority has established a 457(b) deferred compensation plan for its employees in accordance with Internal Revenue Code Section 501. The plan is administrated by a private administrator. All contributions are immediately vested. For calendar years 2016 and 2017, salary deferral could not exceed \$18,000.

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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 tenants for rents. Operating expenses include the cost of sales and services, administrative expense, 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.

Federal Awards - In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Liabilities for reimbursement may arise as a result of these audits.

Compliance - The Authority is subject to various federal, state and local laws and regulations and contractual regulations.

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 Director of Finance prepares all budgets on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America.

Operating budgets for the year are prepared for all program activities. 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 \$1,429,405 at December 31, 2017, and are maintained in commercial checking accounts and are readily available. Cash amounts in excess of the \$250,000 insured by the government were collateralized by government securities and held in the pledging financial institutions' trust departments in the Authority's name. HUD regulations require authorities to maintain funds in accounts that are fully collateralized by United States government securities. The Authority is in compliance with all state and local laws and regulations regarding cash equivalents.

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Of the total cash on hand the breakdown between unrestricted and restricted is shown below:

Unrestricted Cash	\$ 1,328,827
Restricted Cash:	
Tenant Security Deposits	57,496
FSS Escrow	43,082
Total Restricted Cash	<u>100,578</u>
Total Cash	<u>\$ 1,429,405</u>

Note 4 - Accounts Receivable

At December 31, 2017, net accounts receivable totaled \$1,414,199 and consisted of the following:

Accounts Receivable - Tenants	\$ 14,137
Allowance for Doubtful Accounts - Tenants	(5,141)
Accounts Receivable - HUD	1,090,554
Accounts Receivable - Fraud Recovery	1,972
Allowance for Doubtful Accounts - Fraud	(986)
Accounts Receivable - Other	313,663
Total Accounts Receivable	<u>\$ 1,414,199</u>

The Authority reviews the accounts receivable periodically. In fiscal year 2017, the Authority had collection losses totaling \$27,855. Accounts receivable inter-fund of \$490,150 was offset and by accounts payable interfund and eliminated.

Note 5 - Prepaid Expenses

Prepaid expenses totaled \$41,613 at December 31, 2017, and consisted of primarily prepaid insurances and other assets.

Note 6 - Material Inventories

Net material inventories at December 31, 2017 totaled \$186,839 and consist of \$188,726 in materials with an allowance of \$(1,888), and were items used to maintain upkeep of units. Inventories are valued at average cost and cost of expendable supplies held for consumption. The cost of inventories is recorded as expenditures when consumed.

Note 7 - Other Assets

Other assets totaled \$505 at December 31, 2017, and consisted of a prepaid expense to a vendor.

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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017

Note 8 - Land, Structures and Equipment

The changes in land, structures and equipment for the year ended December 31, 2017, were as follows:

	December 31, 2016	Additions and Disposals, Net	December 31, 2017
Land	\$ 1,024,257	\$ 66,682	\$ 1,090,939
Building & Improvements	43,234,019	566,068	43,800,087
Furniture and Equipment	809,211	(19,808)	789,403
Construction in Progress	356,863	(356,863)	
(Less) Accumulated Depr.	<u>(41,078,455)</u>	<u>(571,664)</u>	<u>(41,650,119)</u>
Total Capital Assets, Net	<u>\$ 4,345,895</u>	<u>\$ (315,585)</u>	<u>\$ 4,030,310</u>

Depreciation expense was \$591,472. Construction in progress was completed and transferred to building and improvements, and capital additions were \$295,695. Disposals totaled \$19,808 in 2017.

Note 9 - Accounts Payable

Accounts payable totaled \$186,505 at December 31, 2017, which consisted of payments due to vendors.

Total accounts payable inter-fund of \$490,150 was offset and eliminated by accounts receivable interfund.

Note 10 - Tenant Security Deposits

Tenant security deposits totaled \$57,496 at December 31, 2017.

Note 11 - Deferred Revenue

Deferred revenue totaled \$7,009 at December 31, 2017, which consisted of prepaid rents.

Note 12 - Accrued Liabilities

Accrued liabilities totaled \$136,210, at December 31, 2017, and the breakdown is as follows:

Accrued Wages and Payroll Taxes	\$ 39,031
PILOT	63,242
Other Accrued Liabilities	<u>33,937</u>
Total Current Accrued Liabilites	<u>\$ 136,210</u>

The Authority recognizes leave taken as a current year's salary expense during the year in which the leave is taken. Vacation pay is not accrued and must be used in the year it is earned.

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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 13 - Family Self Sufficiency Escrow

At December 31, 2017 the Authority had Family and Self Sufficiency (FSS) escrow of \$43,082 of amounts due to tenants.

Note 14 - Employee Benefit Plans

The Authority provides pension benefits for all of its full-time employees through a defined contribution plan with Matrix Trust Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan requires the Authority to contribute 14.7% of the employee's base salary each month. The Authority's contribution for each employee is vested after 5 years. The Authority's contributions forfeited by employees who leave employment prior to vesting are used to reduce current costs and contribution requirements. The plan may be amended at the discretion of the Board of Commissioners. The Authority does not provide post employment retirement benefits. As a result there are no disclosures included in these statements as required by GASB 45.

For the fiscal year ended actual contributions by the housing authority were \$285,785 and total annual payroll expense was \$2,069,933. The total plan assets at December 31, 2017, were \$4,063,323, as follows:

Description	Amount
Beginning Balance	\$ 4,186,802
Contributions	288,976
Transfers and Rollovers	(40,492)
Net Withdrawals	(487,034)
Fees and Charges	(44,312)
Changes in Value	159,386
Ending Balance	<u>\$ 4,063,326</u>

Note 15 - Operating Lease Commitments

The Authority has under its normal operations entered into commitments for the purchase of maintenance, cleaning, property rental and other services. Such commitments are monthly or annual.

The Authority also has certain contingent liabilities resulting from claims and commitments incident to the ordinary course of business. Management expects that final resolution of such contingencies will not materially affect the financial position of the Authority.

Note 16 - 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 17 - Allocation of Cost

The Authority allocates expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units or staff in each program. Management considers this to be an equitable method of allocation.

Note 18 - Pending or Threaten Litigation

The Authority is engaged in various legal cases that may have an impact in on the financial in the future. Below is a listing of status of those cases:

Case #1

Litigation was commenced in this matter on September 29, 2015, following ECHA's denial of the Plaintiff's Notice of Tort Claim. The date of loss is September 29, 2013; Plaintiff, "A", claims she cut herself while performing mandatory community service work for ECHA, and Plaintiff, "B", claims loss of consortium as a result of the injury. ECHA has filed a motion for change of judge in this matter, and since that time have filed an Answer and Affirmative Defenses. They do not recommend settlement at this time, as it is their intention to vigorously pursue the question of ECHA's liability in this matter due to contributory negligence by the Plaintiff.

Case #2

Litigation was commenced in this matter on March 31, 2016. The date of loss is between January 1, 2016 and February 5, 2016. Plaintiff maintains that her Constitutional rights have been violated by unreasonable searches of her apartment pursuant to policies set forth in ECHA's lease. This matter has been certified for class action. Discovery has been completed and a Motion for Summary Judgment has very recently been filed.

Plaintiffs in this case are seeking a limited amount of monetary damages, as the actual damages are minimal. However, Plaintiffs have succeeded in obtaining an injunction preventing ECHA from engaging in certain practices. Despite efforts by ECHA to discuss a settlement, Plaintiffs continue to closely monitor compliance with the injunction and have filed contempt citations on occasions which they allege ECHA to have violated it. Because the litigation is based on an alleged violation of a Constitutionally-protected civil right, it is possible that even if Plaintiffs recover only a minimal amount in actual damages, their attorneys could recover a significant amount in attorneys' fees.

At this time, attorneys have requested a review by the sitting Judge of the contempt findings which have been entered by the Magistrate. While this request for review is pending, it is the intention to continue settlement discussions with counsel for Plaintiffs. Whether or not these settlement discussions will ultimately result in a resolution that is acceptable to both parties cannot be determined at this time. If, however, no agreed resolution is reached and an award of attorneys' fees is made, ECHA's potential liability could exceed \$100,000.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Case #3

Litigation was commenced in this matter on September 15, 2016. This case is one of a number of expected litigation matters filed on the basis of personal injuries and alleged Constitutional violations resulting from the discovery of excessive lead contamination on the property of the West Calumet Complex, a housing development owned and operated by ECHA.

Plaintiffs, generally, are former residents of the West Calumet Complex alleging that they and their minor children have suffered illness and/or injury as a result of exposure to lead. Although ECHA is only one of several defendants named, the potential liability could be significant. However, liability is difficult to gauge at this point, because preliminary motions are still being filed and ECHA's status as a defendant, at least in this particular matter, remains uncertain.

ECHA has submitted these matters to its insurance carrier for review, and coverage has been approved. Harris Law Firm has been retained to defend this matter along with Ice Miller, LLP, which is acting as special counsel in these of toxic tort litigation. Currently, it is the intention of the defense to vigorously pursue a Motion to Dismiss and affirmative defenses in this matter.

Case #4

This matter involves a tort claim by a former resident of one of ECHA's senior housing developments who suffered a fatal injury in their apartment. This matter has been submitted to ECHA's insurance carrier, who has accepted coverage. Accordingly, this matter is likely to be defended vigorously and is unlikely to result in direct liability to ECHA.

Unasserted Claims and Assessments

ECHA is in receipt of a number of claims from former tenants of the West Calumet Complex alleging personal injury as a result of lead exposure. Indiana statues prohibit filing of a tort action against a governmental entity such as ECHA without first filing a Notice of Tort Claim; ECHA has received numerous tort claim notices with regard to this matter and it is possible that some of those claimants have not yet associated them with class-action litigation, but may still have the opportunity to do so. ECHA's position remains to deny, either explicitly or inherently by operation of law, all tort claims. However, overwhelming probability is that all tort claims will ultimately develop into state-court civil litigation.

Note 19 - Subsequent Events

Management has performed an analysis of activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended December 31, 2017. Management has performed their analysis through September 19, 2018, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
COMBINING SCHEDULE OF PROGRAM NET POSITION ACCOUNTS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
DECEMBER 31, 2017

	COCC & Low Rent	Housing Choice Vouchers	ROSS	Local/ State	Blended Component Unit	Eliminations	2017 TOTAL
ASSETS							
Cash and Cash Equivalents	\$ 1,333,226	\$ 42,999	\$ -	\$ -	\$ 53,180	\$ -	\$ 1,429,405
Accounts Receivable (net allowances)	1,418,150	231,285	-	9,032	245,882	(490,150)	1,414,199
Prepaid, Deposits and Escrows	29,260	2,599	-	-	9,754	-	41,613
Inventory (net allowances)	185,007	-	-	-	1,832	-	186,839
TOTAL CURRENT ASSETS	<u>2,965,643</u>	<u>276,883</u>	<u>-</u>	<u>9,032</u>	<u>310,648</u>	<u>(490,150)</u>	<u>3,072,056</u>
Other Assets	-	-	-	-	505	-	505
Capital Assets, Net	3,421,039	-	-	-	609,271	-	4,030,310
TOTAL NON-CURRENT ASSETS	<u>3,421,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,776</u>	<u>-</u>	<u>4,030,815</u>
TOTAL ASSETS	<u>\$ 6,386,682</u>	<u>\$ 276,883</u>	<u>\$ -</u>	<u>\$ 9,032</u>	<u>\$ 920,424</u>	<u>\$ (490,150)</u>	<u>\$ 7,102,871</u>
Deferred Outflow of Resources	-	-	-	-	-	-	-
LIABILITIES AND NET POSITION							
Accounts Payable	\$ 151,684	\$ 229,718	\$ -	\$ 9,032	\$ 286,221	\$ (490,150)	\$ 186,505
Tenant Security Deposits	53,846	-	-	-	3,650	-	57,496
Deferred Revenue - Prepaid Rents	6,465	-	-	-	544	-	7,009
Accrued Liabilities - Current	125,797	4,166	-	-	6,247	-	136,210
TOTAL CURRENT LIABILITIES	<u>337,792</u>	<u>233,884</u>	<u>-</u>	<u>9,032</u>	<u>296,662</u>	<u>(490,150)</u>	<u>387,220</u>
FSS Escrow Deposits	83	42,999	-	-	-	-	43,082
TOTAL NON-CURRENT LIABILITIES	<u>83</u>	<u>42,999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,082</u>
TOTAL LIABILITIES	<u>337,875</u>	<u>276,883</u>	<u>-</u>	<u>9,032</u>	<u>296,662</u>	<u>(490,150)</u>	<u>430,302</u>
Deferred Inflow of Resources	-	-	-	-	-	-	-
Invested in Capital Assets	3,421,039	-	-	-	609,271	-	4,030,310
Unrestricted Net Position	2,627,768	-	-	-	14,491	-	2,642,259
Restricted Net Position	-	-	-	-	-	-	-
TOTAL NET POSITION	<u>6,048,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,762</u>	<u>-</u>	<u>6,672,569</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,386,682</u>	<u>\$ 276,883</u>	<u>\$ -</u>	<u>\$ 9,032</u>	<u>\$ 920,424</u>	<u>\$ (490,150)</u>	<u>\$ 7,102,871</u>

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
COMBINING SCHEDULE OF PROGRAM NET POSITION ACCOUNTS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	COCC & Low Rent	Housing Choice Vouchers	ROSS	Local/ State	Blended Component Unit	Eliminations	2017 TOTAL
OPERATING REVENUES							
Net Tenant Rental Revenue	\$ 1,056,997	\$	\$	\$	\$ 67,331	\$	\$ 1,124,328
HUD Operating Grants	3,963,294	5,341,717	23,913				9,328,924
Other Income	1,095,999	18,759		9,032	726,280	(987,911)	862,159
TOTAL OPERATING REVENUES	6,116,290	5,360,476	23,913	9,032	793,611	(987,911)	11,315,411
OPERATING EXPENSES							
Administrative Expenses	2,449,933	476,882	21,724		297,064	(987,911)	2,257,692
Tenant Services	381,941	1,011	2,189	9,032			394,173
Utilities Expense	487,435	3,964			13,256		504,655
Ordinary Maintenance and Materials	1,495,161	6,431			398,743		1,900,335
Protective Services	249,326	553			2,356		252,235
Insurance Expense	398,842	13,226			21,183		433,251
General Expenses	218,753	77,400			10,147		306,300
Extraordinary Maintenance	52,024						52,024
Housing Assistance Payments		5,586,832					5,586,832
Depreciation Expense	582,783				8,689		591,472
TOTAL OPERATING EXPENSES	6,316,198	6,166,299	23,913	9,032	751,438	(987,911)	12,278,969
OPERATING INCOME (LOSS)	(199,908)	(805,823)	-	-	42,173	-	(963,558)
NON-OPERATING REVENUES (EXPENSES)							
Interest	3,097	506					3,603
INCOME BEFORE OTHER REVENUES (EXPENSES)	3,097	506	-	-	-	-	3,603
CAPITAL CONTRIBUTIONS AND TRANSFERS							
Capital Contributions	144,900						144,900
Gain/(Loss) Disposal of Equipmnet	9,115				(100)		9,015
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	154,015	-	-	-	(100)	-	153,915
OPERATING TRANSFERS IN/(OUT)	(38,135)	108,535	-	-	(70,400)	-	-
CHANGE IN NET POSITION	(42,796)	(805,317)	-	-	42,073	-	(806,040)
NET POSITION AT BEGINNING OF PERIOD	6,129,738	696,782	-	-	652,089	-	7,478,609
NET POSITION AT END OF PERIOD	\$ 6,048,807	\$ -	\$ -	\$ -	\$ 623,762	\$ -	\$ 6,672,569

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FEDERAL GRANTOR	CFDA #	FEDERAL AWARDS EXPENDED	TOTAL PROGRAM EXPENDITURES
Major Federal Programs - U S Department of Housing and Urban Development			
<u>Housing Choice Voucher Cluster</u>			
Section 8 Housing Choice Voucher Program	14.871	\$ 5,341,717	\$ 6,057,764
Total Housing Choice Voucher Cluster		5,341,717	6,057,764
Total Major Federal Program		5,341,717	6,057,764
Non-Major Federal Program - U S Department of Housing and Urban Development			
Public and Indian Housing Program	14.850	2,757,490	6,354,334
Public Housing Capital Fund Program	14.872	1,350,704	1,350,704
Resident Opportunity and Supportive Services	14.870	23,913	23,913
Passed-through State of Indiana / Community Development Block Grant	14.218	9,032	9,032
Total Non-Major Federal Program		4,141,139	7,737,983
Total All Programs - U S Department of Housing and Urban Development		\$ 9,482,856	\$ 13,795,747

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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 East Chicago, Indiana (Authority) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Authority's consolidated financial statements.

The schedule summarizes the federal funds expended by the Authority under the programs of the federal government during the year ended December 31, 2017. 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 December 31, 2017, and should be read in conjunction with the Authority's consolidated financial statements.

The Authority did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414 Indirect (F&A) costs.

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 December 31, 2017.

Note 4 - Loans Outstanding

There were no federal loans outstanding for the year ended December 31, 2017.

Note 5 - Non-Cash Assistance

The Authority provided no non-cash assistance for the year ended December 31, 2017.

Note 6 - Insurance

The Authority had no federal insurance for the year ended December 31, 2017.

Housing Authority of the City of East Chicago (IN029)
EAST CHICAGO, IN
Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14.870 Resident Opportunity and Supportive Services	14.871 Housing Choice Vouchers	6.2 Component Unit - Blended	14.218 Community Development Block Grants/Entitlement Grants	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$1,272,915		\$42,999	\$49,530			\$1,365,444		\$1,365,444
112 Cash - Restricted - Modernization and Development									
113 Cash - Other Restricted									
114 Cash - Tenant Security Deposits	\$53,846			\$3,650			\$57,496		\$57,496
115 Cash - Restricted for Payment of Current Liabilities	\$6,465						\$6,465		\$6,465
100 Total Cash	\$1,333,226	\$0	\$42,999	\$53,180	\$0	\$0	\$1,429,405	\$0	\$1,429,405
121 Accounts Receivable - PHA Projects									
122 Accounts Receivable - HUD Other Projects	\$869,023		\$221,531			\$0	\$1,090,554		\$1,090,554
124 Accounts Receivable - Other Government				\$243,866	\$9,032		\$252,898		\$252,898
125 Accounts Receivable - Miscellaneous	\$27,504		\$9,754			\$23,509	\$60,767		\$60,767
126 Accounts Receivable - Tenants	\$10,555			\$3,580			\$14,135		\$14,135
126.1 Allowance for Doubtful Accounts - Tenants	-\$3,577			-\$1,564			-\$5,141		-\$5,141
126.2 Allowance for Doubtful Accounts - Other	\$0		\$0	\$0	\$0	\$0	\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current									
128 Fraud Recovery	\$1,972		\$1,588				\$3,560		\$3,560
128.1 Allowance for Doubtful Accounts - Fraud	-\$986		-\$1,588				-\$2,574		-\$2,574
129 Accrued Interest Receivable									
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$904,491	\$0	\$231,285	\$245,882	\$9,032	\$23,509	\$1,414,199	\$0	\$1,414,199
131 Investments - Unrestricted									
132 Investments - Restricted									
135 Investments - Restricted for Payment of Current Liability									
142 Prepaid Expenses and Other Assets	\$21,984		\$2,599	\$9,754		\$7,276	\$41,613		\$41,613
143 Inventories	\$186,876			\$1,851			\$188,727		\$188,727
143.1 Allowance for Obsolete Inventories	-\$1,869			-\$19			-\$1,888		-\$1,888
144 Inter Program Due From	\$79,432					\$410,718	\$490,150	-\$490,150	\$0
145 Assets Held for Sale									
150 Total Current Assets	\$2,524,140	\$0	\$276,883	\$310,648	\$9,032	\$441,503	\$3,562,206	-\$490,150	\$3,072,056
161 Land	\$974,719			\$116,220			\$1,090,939		\$1,090,939
162 Buildings	\$43,291,961			\$508,126			\$43,800,087		\$43,800,087
163 Furniture, Equipment & Machinery - Dwellings									
164 Furniture, Equipment & Machinery - Administration	\$721,552		\$24,722			\$43,129	\$789,403		\$789,403
165 Leasehold Improvements									
166 Accumulated Depreciation	-\$41,574,493		-\$24,722	-\$15,075		-\$35,829	-\$41,650,119		-\$41,650,119
167 Construction in Progress									
168 Infrastructure									
160 Total Capital Assets, Net of Accumulated Depreciation	\$3,413,739	\$0	\$0	\$609,271	\$0	\$7,300	\$4,030,310	\$0	\$4,030,310
171 Notes, Loans and Mortgages Receivable - Non-Current									
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due									
173 Grants Receivable - Non Current									
174 Other Assets				\$505			\$505		\$505
176 Investments in Joint Ventures									
180 Total Non-Current Assets	\$3,413,739	\$0	\$0	\$609,776	\$0	\$7,300	\$4,030,815	\$0	\$4,030,815
200 Deferred Outflow of Resources									
290 Total Assets and Deferred Outflow of Resources	\$5,937,879	\$0	\$276,883	\$920,424	\$9,032	\$448,803	\$7,593,021	-\$490,150	\$7,102,871

Housing Authority of the City of East Chicago (IN029)
EAST CHICAGO, IN
Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14.870 Resident Opportunity and Supportive Services	14.871 Housing Choice Vouchers	6.2 Component Unit - Blended	14.218 Community Development Block Grants/Entitlement Grants	COCC	Subtotal	ELIM	Total
311 Bank Overdraft									
312 Accounts Payable <= 90 Days	\$78,863		\$31,226	\$2,467		\$9,578	\$122,134		\$122,134
313 Accounts Payable >90 Days Past Due									
321 Accrued Wage/Payroll Taxes Payable	\$20,220		\$3,909			\$60,764	\$84,893		\$84,893
322 Accrued Compensated Absences - Current Portion									
324 Accrued Contingency Liability									
325 Accrued Interest Payable									
331 Accounts Payable - HUD PHA Programs	\$0		\$1,127				\$1,127		\$1,127
332 Account Payable - PHA Projects									
333 Accounts Payable - Other Government	\$63,242			\$3,392			\$66,634		\$66,634
341 Tenant Security Deposits	\$53,846			\$3,650			\$57,496		\$57,496
342 Unearned Revenue	\$6,465			\$544			\$7,009		\$7,009
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue									
344 Current Portion of Long-term Debt - Operating Borrowings									
345 Other Current Liabilities				\$2,368			\$2,368		\$2,368
346 Accrued Liabilities - Other	\$44,250		\$258	\$487		\$564	\$45,559		\$45,559
347 Inter Program - Due To			\$197,364	\$283,754	\$9,032		\$490,150	-\$490,150	\$0
348 Loan Liability - Current									
310 Total Current Liabilities	\$266,886	\$0	\$233,884	\$296,662	\$9,032	\$70,906	\$877,370	-\$490,150	\$387,220
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue									
352 Long-term Debt, Net of Current - Operating Borrowings									
353 Non-current Liabilities - Other	\$83		\$42,999				\$43,082		\$43,082
354 Accrued Compensated Absences - Non Current									
355 Loan Liability - Non Current									
356 FASB 5 Liabilities									
357 Accrued Pension and OPEB Liabilities									
350 Total Non-Current Liabilities	\$83	\$0	\$42,999	\$0	\$0	\$0	\$43,082	\$0	\$43,082
300 Total Liabilities	\$266,969	\$0	\$276,883	\$296,662	\$9,032	\$70,906	\$920,452	-\$490,150	\$430,302
400 Deferred Inflow of Resources									
508.4 Net Investment in Capital Assets	\$3,413,739	\$0		\$609,271		\$7,300	\$4,030,310		\$4,030,310
511.4 Restricted Net Position		\$0					\$0		\$0
512.4 Unrestricted Net Position	\$2,257,171	\$0	\$0	\$14,491	\$0	\$370,597	\$2,642,259		\$2,642,259
513 Total Equity - Net Assets / Position	\$5,670,910	\$0	\$0	\$623,762	\$0	\$377,897	\$6,672,569	\$0	\$6,672,569
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$5,937,879	\$0	\$276,883	\$920,424	\$9,032	\$448,803	\$7,593,021	-\$490,150	\$7,102,871

Housing Authority of the City of East Chicago (IN029)

EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14,870 Resident Opportunity and Supportive Services	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	14,218 Community Development Block Grants/Entitlement Grants	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,012,433			\$66,391			\$1,078,824		\$1,078,824
70400 Tenant Revenue - Other	\$44,564			\$940			\$45,504		\$45,504
70500 Total Tenant Revenue	\$1,056,997	\$0	\$0	\$67,331	\$0	\$0	\$1,124,328	\$0	\$1,124,328
70600 HUD PHA Operating Grants	\$3,963,294	\$23,913	\$5,341,717				\$9,328,924		\$9,328,924
70610 Capital Grants	\$144,900						\$144,900		\$144,900
70710 Management Fee						\$802,656	\$802,656	-\$802,656	\$0
70720 Asset Management Fee						\$81,800	\$81,800	-\$81,800	\$0
70730 Book Keeping Fee						\$103,455	\$103,455	-\$103,455	\$0
70740 Front Line Service Fee									
70750 Other Fees									
70700 Total Fee Revenue						\$987,911	\$987,911	-\$987,911	\$0
70800 Other Government Grants				\$70,400	\$9,032		\$79,432		\$79,432
71100 Investment Income - Unrestricted	\$2,887		\$506			\$210	\$3,603		\$3,603
71200 Mortgage Interest Income									
71300 Proceeds from Disposition of Assets Held for Sale									
71310 Cost of Sale of Assets									
71400 Fraud Recovery			\$1,396				\$1,396		\$1,396
71500 Other Revenue	\$107,018		\$17,363	\$655,880		\$1,071	\$781,332		\$781,332
71600 Gain or Loss on Sale of Capital Assets				-\$100		\$9,115	\$9,015		\$9,015
72000 Investment Income - Restricted									
70000 Total Revenue	\$5,275,096	\$23,913	\$5,360,982	\$793,511	\$9,032	\$998,307	\$12,460,841	-\$987,911	\$11,472,930
91100 Administrative Salaries	\$409,045		\$173,893	\$192,587		\$536,252	\$1,311,777		\$1,311,777
91200 Auditing Fees	\$4,480		\$3,480	\$1,100		\$1,390	\$10,450		\$10,450
91300 Management Fee	\$695,112		\$107,544				\$802,656	-\$802,656	\$0
91310 Book-keeping Fee	\$36,240		\$67,215				\$103,455	-\$103,455	\$0
91400 Advertising and Marketing									
91500 Employee Benefit contributions - Administrative	\$161,403		\$91,603	\$77,362		\$238,872	\$569,240		\$569,240
91600 Office Expenses	\$35,579	\$1,327	\$22,187	\$5,170		\$35,629	\$99,892		\$99,892
91700 Legal Expense	\$72,592	\$20,396		\$20,721		\$10,956	\$124,665		\$124,665
91800 Travel	\$13,266		\$387	\$124		\$2,473	\$16,250		\$16,250
91810 Allocated Overhead									
91900 Other	\$18,428		\$10,573			\$96,417	\$125,418		\$125,418
91000 Total Operating - Administrative	\$1,446,145	\$21,723	\$476,882	\$297,064	\$0	\$921,989	\$3,163,803	-\$906,111	\$2,257,692
92000 Asset Management Fee	\$81,800						\$81,800	-\$81,800	\$0
92100 Tenant Services - Salaries	\$64,401	\$1,975	\$943		\$6,200		\$73,519		\$73,519
92200 Relocation Costs	\$285,620						\$285,620		\$285,620
92300 Employee Benefit Contributions - Tenant Services	\$24,354	\$215	\$68		\$766		\$25,403		\$25,403
92400 Tenant Services - Other	\$7,565				\$2,066		\$9,631		\$9,631
92500 Total Tenant Services	\$381,940	\$2,190	\$1,011	\$0	\$9,032	\$0	\$394,173	\$0	\$394,173
93100 Water	\$103,965		\$321	\$7,143		\$406	\$111,835		\$111,835
93200 Electricity	\$255,157		\$3,295	\$2,357		\$3,210	\$264,019		\$264,019
93300 Gas	\$124,348		\$349	\$3,487		\$349	\$128,533		\$128,533
93400 Fuel									
93500 Labor									
93600 Sewer									

Housing Authority of the City of East Chicago (IN029)
EAST CHICAGO, IN
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14,870 Resident Opportunity and Supportive Services	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	14,218 Community Development Block Grants/Entitlement Grants	COCC	Subtotal	ELIM	Total
93700 Employee Benefit Contributions - Utilities									
93800 Other Utilities Expense				\$268			\$268		\$268
93000 Total Utilities	\$483,470	\$0	\$3,965	\$13,255	\$0	\$3,965	\$504,655	\$0	\$504,655
94100 Ordinary Maintenance and Operations - Labor	\$475,306			\$209,334			\$684,640		\$684,640
94200 Ordinary Maintenance and Operations - Materials and Other	\$59,953			\$6,301		\$8	\$66,262		\$66,262
94300 Ordinary Maintenance and Operations Contracts	\$726,659		\$6,431	\$98,143		\$10,023	\$841,256		\$841,256
94500 Employee Benefit Contributions - Ordinary Maintenance	\$223,211			\$84,966			\$308,177		\$308,177
94000 Total Maintenance	\$1,485,129	\$0	\$6,431	\$398,744	\$0	\$10,031	\$1,900,335	\$0	\$1,900,335
95100 Protective Services - Labor									
95200 Protective Services - Other Contract Costs	\$248,053		\$553	\$2,356		\$1,273	\$252,235		\$252,235
95300 Protective Services - Other									
95500 Employee Benefit Contributions - Protective Services									
95000 Total Protective Services	\$248,053	\$0	\$553	\$2,356	\$0	\$1,273	\$252,235	\$0	\$252,235
96110 Property Insurance	\$110,821		\$1,519	\$7,580		\$1,519	\$121,439		\$121,439
96120 Liability Insurance	\$204,163		\$4,847	\$2,396		\$167	\$211,573		\$211,573
96130 Workmen's Compensation	\$40,287		\$4,966	\$8,544		\$19,168	\$72,965		\$72,965
96140 All Other Insurance	\$21,231		\$1,894	\$2,663		\$1,486	\$27,274		\$27,274
96100 Total insurance Premiums	\$376,502	\$0	\$13,226	\$21,183	\$0	\$22,340	\$433,251	\$0	\$433,251
96200 Other General Expenses	\$7,234		\$54,844	\$4,322			\$66,400		\$66,400
96210 Compensated Absences	\$68,001		\$21,330			\$53,950	\$143,281		\$143,281
96300 Payments in Lieu of Taxes	\$57,859			\$5,825			\$63,684		\$63,684
96400 Bad debt - Tenant Rents	\$31,709						\$31,709		\$31,709
96500 Bad debt - Mortgages									
96600 Bad debt - Other			\$1,226				\$1,226		\$1,226
96800 Severance Expense									
96000 Total Other General Expenses	\$164,803	\$0	\$77,400	\$10,147	\$0	\$53,950	\$306,300	\$0	\$306,300
96710 Interest of Mortgage (or Bonds) Payable									
96720 Interest on Notes Payable (Short and Long Term)									
96730 Amortization of Bond Issue Costs									
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$4,667,842	\$23,913	\$579,468	\$742,749	\$9,032	\$1,013,548	\$7,036,552	-\$987,911	\$6,048,641
97000 Excess of Operating Revenue over Operating Expenses	\$607,254	\$0	\$4,781,514	\$50,762	\$0	-\$15,241	\$5,424,289	\$0	\$5,424,289
97100 Extraordinary Maintenance	\$52,024						\$52,024		\$52,024
97200 Casualty Losses - Non-capitalized									
97300 Housing Assistance Payments			\$5,586,832				\$5,586,832		\$5,586,832
97350 HAP Portability-In									
97400 Depreciation Expense	\$580,697			\$8,689		\$2,086	\$591,472		\$591,472
97500 Fraud Losses									
97600 Capital Outlays - Governmental Funds									
97700 Debt Principal Payment - Governmental Funds									
97800 Dwelling Units Rent Expense									
90000 Total Expenses	\$5,300,563	\$23,913	\$6,166,300	\$751,438	\$9,032	\$1,015,634	\$13,266,880	-\$987,911	\$12,278,969

Housing Authority of the City of East Chicago (IN029)

EAST CHICAGO, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2017

	Project Total	14.870 Resident Opportunity and Supportive Services	14.871 Housing Choice Vouchers	6.2 Component Unit - Blended	14.218 Community Development Block Grants/Entitlement Grants	COCC	Subtotal	ELIM	Total
10010 Operating Transfer In	\$1,215,746		\$108,536			\$133,416	\$1,457,698	-\$1,457,698	\$0
10020 Operating transfer Out	-\$1,349,162					-\$108,536	-\$1,457,698	\$1,457,698	\$0
10030 Operating Transfers from/to Primary Government									
10040 Operating Transfers from/to Component Unit	\$70,400			-\$70,400			\$0		\$0
10050 Proceeds from Notes, Loans and Bonds									
10060 Proceeds from Property Sales									
10070 Extraordinary Items, Net Gain/Loss									
10080 Special Items (Net Gain/Loss)									
10091 Inter Project Excess Cash Transfer In	\$400,000						\$400,000	-\$400,000	\$0
10092 Inter Project Excess Cash Transfer Out	-\$400,000						-\$400,000	\$400,000	\$0
10093 Transfers between Program and Project - In									
10094 Transfers between Project and Program - Out									
10100 Total Other financing Sources (Uses)	-\$63,016	\$0	\$108,536	-\$70,400	\$0	\$24,880	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$88,483	\$0	-\$696,782	-\$28,327	\$0	\$7,553	-\$806,039	\$0	-\$806,039
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$5,759,393	\$0	\$696,782	\$652,089	\$0	\$370,344	\$7,478,608		\$7,478,608
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors				\$0			\$0		\$0
11050 Changes in Compensated Absence Balance									
11060 Changes in Contingent Liability Balance									
11070 Changes in Unrecognized Pension Transition Liability									
11080 Changes in Special Term/Severance Benefits Liability									
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents									
11100 Changes in Allowance for Doubtful Accounts - Other									
11170 Administrative Fee Equity			\$0				\$0		\$0
11180 Housing Assistance Payments Equity			\$0				\$0		\$0
11190 Unit Months Available	8172		12348	157			20677		20677
11210 Number of Unit Months Leased	4824		8962	140			13926		13926
11270 Excess Cash	\$1,672,202						\$1,672,202		\$1,672,202
11610 Land Purchases	\$0					\$0	\$0		\$0
11620 Building Purchases	\$215,300					\$0	\$215,300		\$215,300
11630 Furniture & Equipment - Dwelling Purchases	\$0					\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0					\$0	\$0		\$0
11650 Leasehold Improvements Purchases	\$0					\$0	\$0		\$0
11660 Infrastructure Purchases	\$0					\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0					\$0	\$0		\$0
13901 Replacement Housing Factor Funds	\$0					\$0	\$0		\$0

THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
 STATEMENT OF CAPITAL FUNDS COST - UNCOMPLETED
 FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT F

ANNUAL CONTRIBUTION CONTRACT PHASES IN36P029501 - 15, 16 and 17
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	501-15	501-16	501-17	Total
Funds Approved	\$ 1,270,037	\$ 1,300,198	\$ 1,349,577	\$ 3,919,812
Funds Expended	<u>1,270,037</u>	<u>1,010,924</u>	<u>472,352</u>	<u>2,753,313</u>
Excess\ (Deficit) of Funds Approved	<u>\$ -</u>	<u>\$ 289,274</u>	<u>\$ 877,225</u>	<u>\$ 1,166,499</u>
Funds Advanced	\$ 1,262,157	\$ 622,132	\$ -	\$ 1,884,289
Funds Expended	<u>1,270,037</u>	<u>1,010,924</u>	<u>472,352</u>	<u>2,753,313</u>
Excess\ (Deficit) of Funds Advanced	<u>\$ (7,880)</u>	<u>\$ (388,792)</u>	<u>\$ (472,352)</u>	<u>\$ (869,024)</u>

- 1 Capital Fund Program costs for Phases IN36P029 - 501-15, 16, and 17 are shown above.
- 2 Cost additions during the audit period were as follows: IN36P029501 - 15 - \$553,216, 16 - \$167,063, 17 - \$472,352, and, accordingly, were audited by Velma Butler & Company, Ltd.

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 East Chicago, Indiana
East Chicago, IN 46516

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the primary government business type activities and the blended component units of the Housing Authority of the City of East Chicago, Indiana (Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued an unmodified opinion thereon dated September 19, 2018.

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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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 not identify certain deficiencies in internal control, described in the

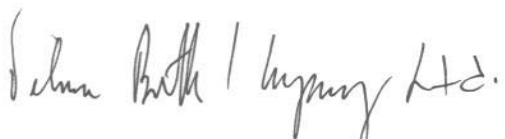
accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Compliance and Other Matters

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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Velma Butler & Company, Ltd.".

Velma Butler & Company, Ltd.
Chicago, Illinois

September 19, 2018

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

Independent Auditor's Report

Board of Commissioners
Housing Authority of the East Chicago, Indiana
East Chicago, IN 46516

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 East Chicago, Indiana (Authority) 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 December 31, 2017. 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 December 31, 2017.

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 2017-001. 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 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 designed 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 December 31, 2017, and have issued our report thereon dated September 19, 2018, which contained an unmodified 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

September 19, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COST

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CURRENT YEAR
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section II - Financial Statement Findings

There were no reportable findings for the fiscal year ended December 31, 2017.

Section III - Federal Award Findings and Questioned Costs

Finding 2017 - 001 Incomplete Housing Quality Standards Inspections

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: January 1, 2017 - December 31, 2017

Condition:

The Housing Authority of the City of East Chicago, Indiana (the Authority) did not maintain adequate documentation to assure follow up inspections were completed timely.

During the audit, it was noted that one (1) tenant file, out of seventeen (17) inspected, was notified of a failed inspection for the property they were currently residing. A follow up inspection must be completed within 30 days. There was no documentation to support the tenant received a follow up inspection, but a reexamination notice was identified post the follow up inspection date that showed the tenant had not moved.

Criteria:

CFR 2 Part 200, Compliance Supplement 4-14.871: Compliance Requirement - The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

Cause:

An annual inspection was completed and issued a failed status. However no documentation was completed to show a follow up inspection was completed to correct the failed status.

Effect:

Tenant could be living in a property that does not meet housing quality standards. Landlord could be receiving payments for a property that does not meet housing quality standards. Properties that do not meet housing quality standards are unsafe for the tenant.

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CURRENT YEAR
FOR THE YEAR ENDED DECEMBER 31, 2017**

Recommendation:

We recommend that the Authority ensures a follow up process is completed and that re-inspections are documented for any failed inspections along with consequences for not completing failed inspections timely (abatement). This process should be documented for each tenant.

Authority Action Plan:

The HVC Director will randomly select HQS failed inspection files for quality control on a quarterly basis, and ensure that any failed HQS inspections will be remedied in a timely manner.

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - PRIOR YEAR
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section IV - Financial Statement Findings

There were no reportable findings for the fiscal year ended December 31, 2016.

Section V - Federal Award Findings and Questioned Costs

There were no reportable findings for the fiscal year ended December 31, 2016.

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
STATEMENT OF COMPLIANCE WITH
SECTION 8 MANAGEMENT ASSESSMENT PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2017**

Velma Butler & Company, Ltd. audited the Authority's compliance with the Section 8 Housing Management Assessment Program and did not observe any material instances of noncompliance.

**THE HOUSING AUTHORITY OF EAST CHICAGO, INDIANA
STATEMENT OF COMPLIANCE WITH
PUBLIC HOUSING ASSESSMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 2017**

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.