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January 24, 2020

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

We have received the audit report of the City of Kendallville Housing Authority, which was opined upon by BRZ Sailor Khan, LLC, Independent Public Accountant, for the period January 1, 2016 to December 31, 2016. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of the City of Kendallville Housing Authority, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

Paul D. Joyce, CPA  
State Examiner

KENDALLVILLE HOUSING AUTHORITY  
KENDALLVILLE, INDIANA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
AND  
REPORTS ON COMPLIANCE AND  
ON INTERNAL CONTROL

KENDALLVILLE HOUSING AUTHORITY  
Kendallville, Indiana

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DECEMBER 31, 2016

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SECTION I  
AUDITOR'S REPORT  
AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Kendallville Housing Authority  
Kendallville, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Kendallville Housing Authority, Indiana, (Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Kendallville Housing 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 an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Kendallville Housing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kendallville Housing Authority'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 opinion.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kendallville Housing Authority, as of December 31, 2016 and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through viii 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**

*Report on Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kendallville Housing Authority's basic financial statements. The accompanying Financial Data Schedule - HUD Prescribed Format are presented for purposes of additional analysis and are not a required part of the basic 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 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 above described 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 May 11, 2017 on our consideration of the Kendallville Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kendallville Housing Authority's internal control over financial reporting and compliance.

*BRZ Sailor Khan LLC*

BRZ Sailor Khan, LLC  
May 11, 2017

## Kendallville Housing Authority

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### Management's Discussion and Analysis (MD&A) December 31, 2016 (Unaudited)

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This section of the Kendallville Housing Authority, Indiana's (Authority) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

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

#### **FINANCIAL HIGHLIGHTS**

- The term "net position" refers to the difference between assets and liabilities. The Authority's total net position as of December 31, 2016 was \$2,245,363. The net position decreased by \$82,508, a decrease of 3.5% from the prior year.
- Revenues for the Authority were \$594,701 for the year ended December 31, 2016. This was a decrease of \$111,917 or 15.8% from the prior year.
- Expenses for the Authority were \$677,209 for the year ended December 31, 2016. This was an increase of \$8,368 or 1.3% from the prior year.
- Rental revenue for the Authority was \$445,526 or 74.9% of total revenue for the year ended December 31, 2016. This was an increase of \$3,018 or 0.7% from the prior year. HUD operating grants for the Authority was \$115,060 or 19.3% of total revenue for the year ended December 31, 2016. This was an increase of \$18,654 or 19.3% from the prior year. HUD capital grants were \$16,919 or 2.8% of total revenue for the year ended December 31, 2016. This was a decrease of \$147,811 or 89.7% from the prior year.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### **Required Financial Statements**

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

**Kendallville Housing Authority**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

Notes to the Financial Statements

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

HUD Reporting

HUD has established *Uniform Financial Reporting Standards* that require Housing Authority's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2016 and is required to be included in the audit reporting package.

**FINANCIAL ANALYSIS**

Net position may serve, over time, as a useful indicator of a government's financial position. As stated in the table below, assets exceeded liabilities by \$2,245,363 at the close of the year ended December 31, 2016, down from \$2,327,871 in fiscal year 2015. The decrease in net position of \$82,508 was due to the reasons noted below.

- Current assets include cash, receivables, prepaid expenses, and inventory. Of the \$46,310 increase in this category, cash and investments increased \$21,766, receivables increased \$23,940, prepaid expenses increased \$206, and inventory increased \$398.
- Other assets include investment in joint ventures and decreased \$8 from FY 2015.
- Capital assets increased \$108,519 because current year depreciation exceeded current year capital asset additions. Change in capital assets is explained in section titled "Capital Assets" of this analysis.
- Deferred outflow of resources were \$72,843 as of December 31, 2016, an increase of \$21,006 or 40.5% over FY 2015.
- Current liabilities increased \$6,863 mostly due to increases in tenant prepaid rent of \$2,138 and accrued wages and payroll taxes payable of \$2,365. The Authority also had increases in accounts payable of \$1,164 and tenant security deposits of \$1,196.
- Noncurrent liabilities increased \$37,450 from FY 2015 due to an increase in net pension liability.

**Kendallville Housing Authority**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**FINANCIAL ANALYSIS (CONTINUED)**

- Deferred inflow of resources decreased \$3,016 from FY 2015.

The unrestricted net position was \$911,228 as of December 31, 2016. This amount may be used to meet the Authority's ongoing obligations. The Authority has sufficient funds to meet requirements for cash outlays for next fiscal year. The Authority did not have any net position classified as restricted that is subject to external restrictions on how they may be used. At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

*Condensed Statements of Net Position*  
*December 31,*

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 1,043,921	\$ 997,611	\$ 46,310	4.6%
Other assets	40,292	40,300	(8)	0.0%
Capital assets	<u>1,334,135</u>	<u>1,442,654</u>	<u>(108,519)</u>	-7.5%
Total Assets	<u>2,418,348</u>	<u>2,480,565</u>	<u>(62,217)</u>	-2.5%
Deferred Outflow of Resources	<u>72,843</u>	<u>51,837</u>	<u>21,006</u>	40.5%
Current liabilities	62,387	55,524	6,863	12.4%
Noncurrent liabilities	<u>166,561</u>	<u>129,111</u>	<u>37,450</u>	29.0%
Total Liabilities	<u>228,948</u>	<u>184,635</u>	<u>44,313</u>	24.0%
Deferred Inflow of Resources	<u>16,880</u>	<u>19,896</u>	<u>(3,016)</u>	-15.2%
Net Position				
Net investment in capital assets	1,334,135	1,442,654	(108,519)	-7.5%
Unrestricted	<u>911,228</u>	<u>885,217</u>	<u>26,011</u>	2.9%
Total Net Position	<u>\$ 2,245,363</u>	<u>\$ 2,327,871</u>	<u>\$ (82,508)</u>	-3.5%

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

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

As can be seen in the table on the following page, total revenues decreased \$117,198 due to the reasons noted below.

- Rental revenue increased \$3,018 or 0.7% from FY 2015 due to a increase in other tenant charges besides rent.

**Kendallville Housing Authority**  
**(Unaudited)**  
**Management's Discussion and Analysis (MD&A) - Continued**

**FINANCIAL ANALYSIS (CONTINUED)**

- Of the \$18,654 increase in operating grants, public housing operating subsidy decreased \$5,672 and capital fund grants used for operating expenditures increased \$24,326.
- Interest earnings increased \$1,253 from FY 2015.
- Capital grants decreased \$147,811 from FY 2015. The Authority is allocated capital fund grants each year as determined by HUD and the amount remains relatively consistent from year to year. HUD capital grant revenues during the year will depend upon timing of projects as outlined in the HUD approved capital grant budget.
- Other revenues increased \$12,969 from FY 2015 due to income from a maintenance contract with R.A Streb Complex.

*Condensed Statements of Revenues, Expenses  
and Changes in Net Position  
Year Ended December 31,*

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues and Contributions</b>				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 445,526	\$ 442,508	\$ 3,018	0.7%
HUD operating grants	115,060	96,406	18,654	19.3%
Interest income	4,196	2,943	1,253	42.6%
Capital Contributions	16,919	164,730	(147,811)	-89.7%
Other income	13,000	31	12,969	41835.5%
Total Revenues and Contributions	<u>594,701</u>	<u>706,618</u>	<u>(111,917)</u>	-15.8%
<b>Expenses</b>				
Personal services	284,361	278,931	5,430	1.9%
Utilities	103,129	111,067	(7,938)	-7.1%
Operations and maintenance	54,991	63,959	(8,968)	-14.0%
Non routine maintenance	2,200	----	2,200	100.0%
Insurance	37,904	33,704	4,200	12.5%
Other supplies and expenses	52,340	41,265	11,075	26.8%
Depreciation	142,284	139,915	2,369	1.7%
Total Expenses	<u>677,209</u>	<u>668,841</u>	<u>8,368</u>	1.3%
Change in net position	(82,508)	37,777	(120,285)	
Beginning net position	<u>2,327,871</u>	<u>2,290,094</u>	<u>37,777</u>	
Ending net position	<u>\$ 2,245,363</u>	<u>\$ 2,327,871</u>	<u>\$ (82,508)</u>	

**Kendallville Housing Authority  
(Unaudited)  
Management's Discussion and Analysis (MD&A) - Continued**

**FINANCIAL ANALYSIS (CONTINUED)**

Total expenses increased \$8,568 due to the reasons noted below.

- Personal services were \$284,361 or 42.0% of total expenses for FY 2016. Increase of \$5,430 or 1.9% from FY 2015 was due to an increase in employee salaries and wages of \$13,693 or 7.7%, which was partially offset by a decrease in employer contributions of \$8,263 or 8.1%.
- Utilities expense was \$103,129 or 15.2% of total expenses for FY 2016. This was a decrease of \$7,938 or 7.1% from FY 2015 which was due to a decrease in water of \$3,725 or 12.6% and a decrease in gas of \$5,134 or 31.0%. This was partially offset by an increase in electricity of \$921 or 1.4%.
- Operations and maintenance was \$54,991 or 8.1% of total expenses for FY 2016. Decrease in maintenance expense of \$8,968 was due to a decrease in contracted maintenance services of \$9,178.
- Insurance increased \$4,200 or 12.5% from FY 2015 primarily due to an increase in workers compensation insurance of \$2,724 or 96.9% and an increase in property insurance of \$1,401 or 5.3%.
- Other supplies and expense increased \$11,075 or 26.8% from FY 2015 mainly due to a \$7,597 increase in travel expenses and a \$1,739 increase in auditing fees.
- The Authority had non-routine maintenance of \$2,200 in FY 2016 for repairing water pipes.
- The Authority had a \$2,269 or 1.7% increase in Depreciation, which is the write-off of capital assets over their estimated useful life. Depreciation totaled \$142,284 or 21.1% of total expenses for FY 2016.

The Low Rent Public Housing occupancy rate for fiscal year December 31, 2016 was 99.6%, up slightly from 98.7% in FY 2015. The Authority currently has 118 Public Housing units.

**CAPITAL ASSETS**

**Capital Assets** – The Kendallville Housing Authority investment in capital assets, as of December 31, 2016 amounts to \$1,334,135 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment, construction in progress, and accumulated depreciation.

The total decrease in the Authority's investment in capital assets for the current fiscal year was 7.5% in terms of net book value. Actual expenditures to purchase or construct capital assets from revenues were \$34,755 for the year. The Authority has various contract commitments with contractors for the implementation of the HUD capital grants as outlined by the HUD approved Capital Grant Budget. Depreciation charges for the year totaled \$142,284. Additional information on the Authority's capital assets can be found in the notes to the financial statements.

	Beginning	Additions	Depreciation	Ending
Capital assets	\$1,442,654	\$33,765	\$(142,284)	\$1,334,135

**Kendallville Housing Authority  
(Unaudited)  
Management's Discussion and Analysis (MD&A) - Continued**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Board of Commissioners and Management of the Housing Authority considered many factors when approving the fiscal year 2017 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on occupied units and approved vacancies, utility consumption and rates, approved add-ons, formula income, and transition funding. The amount of funding is also established and approved by HUD. Formula income is based on rental income from the Authority's rent roll records for the period specified by HUD. Operating expenses are expected to increase by the economy's inflation rate.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Andrea Pyle, Executive Director, Kendallville Housing Authority, 240 Angling Road, Kendallville, Indiana 46755, telephone number (260) 347-1091.

SECTION II  
FINANCIAL STATEMENTS  
AND  
NOTES TO FINANCIAL STATEMENTS

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

STATEMENT OF NET POSITION

December 31, 2016

**ASSETS**

Current Assets:

Cash and cash equivalents	\$	649,200
Investments		361,663
Receivable - net of allowances:		
Accounts		24,638
Accrued interest		359
Inventory - net of allowances		3,383
Prepaid expenses		4,678

Total Current Assets 1,043,921

Capital assets:

Land, improvements, and construction in progress		388,730
Other capital assets, net of depreciation		945,405

Total capital assets- net 1,334,135

Non capital assets:

Other assets		40,292
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Total Non capital assets 40,292

Total Assets 2,418,348

Deferred Outflow of Resources 72,843

See notes to financial statements

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

STATEMENT OF NET POSITION (CONTINUED)

December 31, 2016

**LIABILITIES**

Current Liabilities:

Accounts Payable	13,933
Accrued salaries, wages and benefits	9,563
Tenant security deposit liability	36,405
Unearned revenues	<u>2,486</u>

Total Current Liabilities 62,387

Noncurrent Liabilities:

Accrued Pension and OPEB liability	<u>166,561</u>
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Total Noncurrent Liabilities 166,561

Total Liabilities 228,948

Deferred Inflow of Resources 16,880

**NET POSITION**

Net investment in capital assets	1,334,135
Unrestricted	<u>911,228</u>

Total Net Position \$ 2,245,363

See notes to financial statements

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

For Year Ended December 31, 2016

<b>Operating Revenues:</b>	
Rental revenue	\$ 445,526
Operating subsidies- HUD grants	115,060
Other revenues	<u>13,000</u>
Total operating revenues	<u>573,586</u>
<b>Operating Expenses:</b>	
Personal services	284,361
Utilities	103,129
Operations and maintenance	54,991
Non routine maintenance	2,200
Insurance	37,904
Other supplies and expenses	52,340
Depreciation	<u>142,284</u>
Total operating expenses	<u>677,209</u>
Operating income (loss)	<u>(103,623)</u>
<b>Non-operating revenues (expenses):</b>	
Interest and investment earnings	<u>4,196</u>
Net non-operating revenues (expenses)	<u>4,196</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(99,427)
Capital contributions	<u>16,919</u>
Change in net position	(82,508)
Net position at beginning of year	<u>2,327,871</u>
Net position at end of year	<u>\$ 2,245,363</u>

See notes to financial statements

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

**STATEMENT OF CASH FLOWS**

For Year Ended December 31, 2016

**Cash flows from operating activities:**

Cash received from tenants	\$	447,973
Cash received from HUD grants- operating		115,060
Cash received from other operating activities		13,000
Cash payments for goods and services		(250,004)
Cash payments to employees-salaries		(178,858)
Cash payments to employees-compensated absences		(9,839)
Cash payments for employee benefit contributions		<u>(93,299)</u>

Net cash provided (used) by operating activities 44,033

**Cash flows from capital and related financing activities:**

Capital contributions		(7,407)
Receipts (payments) from deferred credits and escrow deposits		(24,022)
Accrued Pension and OPEB liabilities		37,450
Payments for capital assets		<u>(33,765)</u>

Net cash (used) for capital and related financing activities (27,744)

**Cash flows from investing activities:**

Proceeds from sale of (payments) for investments		(103,458)
Interest and dividends		4,281
Receipts (payments) from tenant security deposits		<u>1,196</u>

Net cash provided (used) from investing activities (97,981)

Net increase (decrease) in cash and cash equivalents (81,692)  
Cash and cash equivalents at beginning of year 730,892

Cash and cash equivalents at end of year \$ 649,200

See notes to financial statements

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended December 31, 2016

**Reconciliation of operating income (loss) to net cash  
provided (used) by operating activities:**

Operating income (loss)	\$	(103,623)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		142,284
Allowance for doubtful accounts		(312)
Allowance for inventory		(633)
Changes in assets and liabilities:		
Receivables		621
Inventory		235
Prepaid expenses		(206)
Accounts and other payables		1,164
Unearned revenues		2,138
Accrued expenses		<u>2,365</u>
Net cash provided (used) by operating activities	\$	<u><u>44,033</u></u>

See notes to financial statements

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies**

The Kendallville Housing Authority (Authority) is a Special Purpose Government entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Authority complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1a. Financial Reporting Entity**

The Housing Authority's financial reporting entity comprises the following:

Primary Government: Housing Authority

In determining the financial reporting entity, the Housing Authority complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39 and GASB No. 61, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Authority appointed a voting majority of the units' board; the Housing Authority is either able to impose its will on the unit or a financial benefit or burden relationship exists.

As a blended component unit it is a legally separate entity from the Housing Authority, but is so intertwined with the Housing Authority that it is, in substance, the same as the Housing Authority.

The accompanying financial statements include the activities of the Kendallville Housing Finance Corporation and it is blended into the enterprise funds. The Kendallville Housing Finance Corporation was organized as a charitable, not-for-profit corporation to act as an instrument of the Kendallville Housing Authority. The purpose of the Corporation is to promote and advance decent, safe and sanitary housing for person of low income, particularly low income families of Kendallville and County of Noble in Indiana. To assist the Housing Authority of Kendallville by borrowing and lending funds to finance the development of low income housing projects which have been approved by the Authority.

**1b. GASB Implementation**

The Housing Authority has implemented the Governmental Accounting Standards Board (GASB) Statements number 62, 63 and 65 for those audits with financial statements for periods beginning after December 15, 2011.

Governmental Accounting Standards Board (GASB) Statements 68 was implemented effective for fiscal years beginning June 15, 2014 and there after.

The Housing Authority has no deferred outflows of resources or deferred inflows of resources.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1c. Basis of Presentation**

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, net position, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Authority's programs as an enterprise fund.

Following is a description of the Authority's programs:

<b>Program</b>	<b>Brief Description</b>
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.
Kendallville Housing Finance Corporation	Accounts for activities of the Kendallville Housing Finance Corporation which is to promote and advance decent, safe and sanitary housing for person of low income, particularly low income families of Kendallville and County of Noble in Indiana. To assist the Housing Authority of Kendallville by borrowing and lending funds to finance the development of low income housing projects which have been approved by the Authority.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1d. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

In the financial statements, the “economic resources” measurement focus is used as follows:

- ▶ The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Basis of Accounting**

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**1e. Assets, Liabilities, and Equity**

**Cash and Investments**

For the purpose of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

**Interprogram Receivables and Payables**

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms, if any, are eliminated for financial statement presentation.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1e. Assets, Liabilities, and Equity (Continued)**

**Receivables**

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accounts receivable-miscellaneous, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**Inventories**

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

**Budgets and Budgetary Accounting**

The Authority adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

**Estimates and Assumptions**

The Authority uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

**Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$100 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1e. Assets, Liabilities, and Equity (Continued)**

**Capital Assets**

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 - 40 years
Furniture, equipment and machinery - dwelling	3 - 10 years
Furniture, equipment and machinery - administration	3 - 10 years
Leasehold improvements	15 - 40 years

**Compensated Absences**

The Housing Authority's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Equity Classifications**

Equity is classified as net position and displayed in two components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Authority had no related debt.
- b. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (Continued)**

**1f. Revenues, Expenditures, and Expenses**

**Operating Revenues and Expenses**

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

**Interfund Transfers**

For the purposes of the Statement of Revenues, Expenses and Change in Net Position, all interfund transfers between individual programs, if any, have been eliminated.

**NOTE 2 - Stewardship, Compliance, and Accountability**

The Authority and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

**2a. Program Accounting Requirements**

The Authority complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Authority are as follows:

<b>Program</b>	<b>Required By</b>
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development
Kendallville Housing Finance Corporation	Public Housing Authority

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 2 - Stewardship, Compliance, and Accountability (Continued)**

**2b. Deposits and Investments Laws and Regulations**

In accordance with state law, all uninsured deposits of the Authority in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Authority must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Authority are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

**2c. Revenue Restrictions**

The Authority has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended December 31, 2016, the Authority complied, in all material respects, with these revenue restrictions.

**NOTE 3 - Detail Notes on Transaction Classes/Accounts**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

**3a. Cash and Investments**

**Deposits**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it or the Authority will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2016, the Authority's bank balances of \$649,585, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Authority's name.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2016, the Authority's investments were \$361,663. These investments were insured by federal depository insurance or registered, or securities held by the Authority or its agent in the Authority's name.

*Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:*

*Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority will minimize credit risk by reviewing the financial institutions with which the Authority will do business so that potential losses on individual securities will be minimized.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Authority will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements and investing operating funds primarily in shorter term securities.

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority does not have a written investment policy covering concentration of credit risk.

3b. Accounts Receivable

Receivables detail at December 31, 2016, is as follows:

Tenant accounts receivable	\$	621
Allowance for doubtful accounts		<u>(309)</u>
Tenants accounts receivable - net		312
Accounts receivable - HUD		24,326
Accounts receivable - other		6,293
Allowance for doubtful accounts		<u>(6,293)</u>
	\$	<u><u>24,638</u></u>

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance December 31, 2016</u>
Land	\$ 388,549	\$ ----	\$ ----	\$ 388,549
Building	5,666,097	11,434	----	5,677,531
Furniture, equipment and machinery- dwelling	122,297	5,722	----	128,019
Furniture, equipment and machinery- administration	200,649	16,609	----	217,258
Construction in progress	<u>181</u>	<u>----</u>	<u>----</u>	<u>181</u>
	6,377,773	<u>\$ 33,765</u>	<u>\$ ----</u>	6,411,538
Accumulated depreciation	<u>4,935,119</u>	<u>\$ 142,284</u>	<u>\$ ----</u>	<u>5,077,403</u>
Total	<u>\$ 1,442,654</u>			<u>\$ 1,334,135</u>

For assets that are depreciated refer to Note 1e - Capital Assets

3d. Deferred Outflow of Resources

As of December 31, 2016, the deferred outflow of resources are comprised of the following:

Deferred charges - other	<u>\$ 72,843</u>
Total	<u>\$ 72,843</u>

The following is a summary of changes in deferred inflow of resources for the year ended December 31, 2016:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2016</u>
Deferred charges - other	\$ <u>51,837</u>	\$ <u>21,006</u>	\$ ----	\$ <u>72,843</u>
Total	<u>\$ 51,837</u>	<u>\$ 21,006</u>	<u>\$ ----</u>	<u>\$ 72,843</u>

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)**

**3e. Accounts Payable**

Payable detail at December 31, 2016, is as follows:

Accounts payable - vendors	\$ 2,878
Accrued liabilities - other	<u>11,055</u>
	<u>\$ 13,933</u>

**3f. Non-current Liabilities**

As of December 31, 2016, the non-current liabilities are comprised of the following:

Accrued pension and OPEB liability	\$ <u>166,561</u>
Total	<u>\$ 166,561</u>

The following is a summary of changes in non-current liabilities for the year ended December 31, 2016:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2016</u>
Accrued pension and OPEB liability	\$ <u>129,111</u>	\$ <u>37,450</u>	\$ ----	\$ <u>166,561</u>
Total	<u>\$ 129,111</u>	<u>\$ 37,450</u>	<u>\$ ----</u>	<u>\$ 166,561</u>

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)**

**3g. Deferred Inflow of Resources**

As of December 31, 2016, the deferred inflow of resources are comprised of the following:

Deferred credits - other	\$ <u>16,880</u>
Total	\$ <u><u>16,880</u></u>

The following is a summary of changes in deferred inflow of resources for the year ended December 31, 2016:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2016</u>
Deferred credits - other	\$ <u>19,896</u>	\$ ----	\$ <u>3,016</u>	\$ <u>16,880</u>
Total	\$ <u><u>19,896</u></u>	\$ <u><u>----</u></u>	\$ <u><u>3,016</u></u>	\$ <u><u>16,880</u></u>

**3h. Interprogram Transactions**

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations. Offsetting operating transfers, if any, are eliminated for financial statement presentation.

**NOTE 4 - Other Notes**

**4a. Employee Retirement Plan**

*Description of Pension Plan*

The Housing Authority of the City of Kendallville (Housing Authority) participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Indiana Employees' Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. INPRS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4a. Employee Retirement Plan (Continued)**

- Public employees, which includes:
  - State employees
  - Local employees
- Police and Firemen
- Judges

Substantially all public employees in Indiana are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected. Those employees participating in the Pension Plan for the Housing Authority are included in the Local employees group. INPRS issues a stand-alone comprehensive annual financial report, which is available on the INPRS website at [www.IHPRS.org](http://www.IHPRS.org).

*Benefits*

Benefits are established by statute and may only be changed by the General Assembly. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85. Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Indiana Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Indiana, for all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

*Contributions*

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Indiana Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4a. Employee Retirement Plan (Continued)**

For fiscal years beginning in 1995, Indiana legislation established statutory limits on increases in contribution rates for INPRS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 11.2% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates and the statutory contribution rates for local employees are 9.77% and 8.84%, respectively. Member contribution rates as a percentage of eligible compensation for the fiscal year ended June 30, 2016 are 4.00%, 5.00%, or 6.00% for local employees.

*Employer Allocations*

Although INPRS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, INPRS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and non-employer allocations are applied to amounts presented in the schedules of pension amounts by employer and non-employer.

The allocation percentages for the Housing Authority's share of the collective pension amounts as of June 30, 2016 and 2015 was based on the ratio of its contributions to the total of the employer and non-employer contributions of the group for the fiscal years ended June 30, 2016 and 2015, respectively.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016, the Housing Authority's proportion was 0.00134%, which was an increase of 0.00103% from its proportion measured at June 30, 2015.

*Net Pension Liability*

At June 30, 2016 and 2015, the Housing Authority reported a liability of \$166,561 and \$129,111, respectively, for its proportionate share of the net pension liability.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4a. Employee Retirement Plan (Continued)**

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016, using the following actuarial assumptions:

Price inflation	3.00%
Wage inflation	4.00%
Salary increase, including wage increases	4.00 to 12.50% including inflation
Long-term rate of return, net of investment expense, and including price inflation	6.75%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males and Females, with adjustments to better match actual experience. Separate tables apply for males and females as well as each group (State, Local, KP&F and Judges).

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study conducted for three years ending June 30, 2013.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4a. Employee Retirement Plan (Continued)**

Asset Class	Long-Term Target Allocations	Long-term Expected Real Rate of Return
Global equity	47%	6%
Fixed income	14%	0.85%
Yield driven	8%	5.50%
Real return	11%	3.75%
Real estate	11%	6.65%
Alternatives	8%	9.50%
Short-term investment	1%	0%
Total	100%	

*Discount Rate*

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected INPRS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police a Firemen, and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate*

The following presents the Housing Authority's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net position liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

NOTE 4 - Other Notes (Continued)

4a. Employee Retirement Plan (Continued)

1% Decrease (5.75%)	Discount rate (6.75%)	1% Increase (7.75%)
\$239,221	\$166,561	\$106,169

*Pension Expense*

For the year ended June 30, 2016, the Housing Authority recognized pension expense of \$3,732, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between actual and expected experience	\$3,732	\$307
Net differences between projected and actual investment earnings on pension plan investments	\$36,634	\$9,372
Changes of assumptions	\$7,349	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$14,318	\$7,201
Contributions made after plan year end	\$10,810	-0-
Total	\$72,843	\$16,880

Amounts reported as deferred outflows of resources and deferred resources related to pensions will be recognized as a reduction of 2106:

Amortization of net deferred outflow/(inflow) of resources - debit/(credit)	
2017	\$7,222
2018	\$3,772
2019	\$5,442
2020	\$0
Thereafter	\$23,658

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4b. Investments in Joint Ventures**

Investments at December 31, 2016 consist of this following:

Partnership Kendallville limited partnership \$40,292

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

**4c. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Authority manages these various risks of loss as follows:

<b>Type of Loss</b>	<b>Method Managed</b>
a. Torts, errors and omissions	Purchased insurance with State Farm and Colligan & Co.
b. Injuries to employees (workers' compensation)	Purchased insurance with State Farm; Claims are administered by State Farm.
c. Physical property loss and natural disasters	Purchased commercial insurance with basic \$10,000 deductibles. Special deductibles: money & securities \$250 and employee dishonesty \$250.
d. Health and life	Purchased health insurance with Physical Health Plan; Life insurance is provided by Anthem Life Insurance.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**4d. Economic Dependency**

The Kendallville Housing Authority receives a significant portion of its revenue from funds provided through Federal grants. The grant amounts are appropriated each year at the Federal level. The amount of the funds the Authority receives could be reduced significantly and have an adverse impact on its operations.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016

**NOTE 4 - Other Notes (Continued)**

**4e. Commitments and Contingencies**

**Commitments—Construction**

At December 31, 2016, the Authority had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-15	\$ 102,230	\$ 42,004
CFP 501-16	<u>106,326</u>	<u>15,326</u>
	<u>\$ 208,556</u>	<u>\$ 57,330</u>

**Contingencies**

The Authority is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Authority in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

EXHIBIT A  
FINANCIAL DATA SCHEDULE

Housing Authority of the City of Kendallville (IN036)  
**KENDALLVILLE, IN**  
**Entity Wide Balance Sheet Summary**

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$497,528	\$115,267	\$612,795		\$612,795
112 Cash - Restricted - Modernization and Development					
113 Cash - Other Restricted					
114 Cash - Tenant Security Deposits	\$36,405		\$36,405		\$36,405
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$533,933	\$115,267	\$649,200	\$0	\$649,200
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects	\$24,326		\$24,326		\$24,326
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous		\$6,293	\$6,293		\$6,293
126 Accounts Receivable - Tenants	\$621		\$621		\$621
126.1 Allowance for Doubtful Accounts - Tenants	-\$309		-\$309		-\$309
126.2 Allowance for Doubtful Accounts - Other	\$0	-\$6,293	-\$6,293		-\$6,293
127 Notes, Loans, & Mortgages Receivable - Current					
128 Fraud Recovery					
128.1 Allowance for Doubtful Accounts - Fraud					
129 Accrued Interest Receivable	\$95	\$264	\$359		\$359
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$24,733	\$264	\$24,997	\$0	\$24,997
131 Investments - Unrestricted	\$106,102	\$255,561	\$361,663		\$361,663
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$4,678		\$4,678		\$4,678
143 Inventories	\$4,813		\$4,813		\$4,813

Housing Authority of the City of Kendallville (IN036)  
**KENDALLVILLE, IN**  
**Entity Wide Balance Sheet Summary**

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
143.1 Allowance for Obsolete Inventories	-\$1,430		-\$1,430		-\$1,430
144 Inter Program Due From					
145 Assets Held for Sale					
<b>150 Total Current Assets</b>	<b>\$672,829</b>	<b>\$371,092</b>	<b>\$1,043,921</b>	<b>\$0</b>	<b>\$1,043,921</b>
161 Land	\$388,549		\$388,549		\$388,549
162 Buildings	\$5,677,531		\$5,677,531		\$5,677,531
163 Furniture, Equipment & Machinery - Dwellings	\$128,019		\$128,019		\$128,019
164 Furniture, Equipment & Machinery - Administration	\$203,740	\$13,518	\$217,258		\$217,258
165 Leasehold Improvements					
166 Accumulated Depreciation	-\$5,063,885	-\$13,518	-\$5,077,403		-\$5,077,403
167 Construction in Progress	\$181		\$181		\$181
168 Infrastructure					
<b>160 Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$1,334,135</b>	<b>\$0</b>	<b>\$1,334,135</b>	<b>\$0</b>	<b>\$1,334,135</b>
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past					
173 Grants Receivable - Non Current					
174 Other Assets		\$40,292	\$40,292		\$40,292
176 Investments in Joint Ventures		\$0	\$0		\$0
<b>180 Total Non-Current Assets</b>	<b>\$1,334,135</b>	<b>\$40,292</b>	<b>\$1,374,427</b>	<b>\$0</b>	<b>\$1,374,427</b>
200 Deferred Outflow of Resources	\$72,843		\$72,843		\$72,843
<b>290 Total Assets and Deferred Outflow of Resources</b>	<b>\$2,079,807</b>	<b>\$411,384</b>	<b>\$2,491,191</b>	<b>\$0</b>	<b>\$2,491,191</b>

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$2,878		\$2,878		\$2,878
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable	\$9,583		\$9,583		\$9,583
322 Accrued Compensated Absences - Current Portion					
324 Accrued Contingency Liability					
325 Accrued Interest Payable					
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government					
341 Tenant Security Deposits	\$36,405		\$36,405		\$36,405
342 Unearned Revenue	\$2,486		\$2,486		\$2,486
343 Current Portion of Long-term Debt - Capital					
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities					
346 Accrued Liabilities - Other	\$11,055		\$11,055		\$11,055
347 Inter Program - Due To					
348 Loan Liability - Current					
310 Total Current Liabilities	\$62,387	\$0	\$62,387	\$0	\$62,387
351 Long-term Debt, Net of Current - Capital Projects/Mortgage					
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current					
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Balance Sheet Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
357 Accrued Pension and OPEB Liabilities	\$166,561		\$166,561		\$166,561
350 Total Non-Current Liabilities	\$166,561	\$0	\$166,561	\$0	\$166,561
300 Total Liabilities	\$228,948	\$0	\$228,948	\$0	\$228,948
400 Deferred Inflow of Resources	\$16,880		\$16,880		\$16,880
508.4 Net Investment in Capital Assets	\$1,334,135		\$1,334,135		\$1,334,135
511.4 Restricted Net Position					
512.4 Unrestricted Net Position	\$499,844	\$411,384	\$911,228		\$911,228
513 Total Equity - Net Assets / Position	\$1,833,979	\$411,384	\$2,245,363	\$0	\$2,245,363
600 Total Liabilities, Deferred Inflows of Resources and Equity -	\$2,079,807	\$411,384	\$2,491,191	\$0	\$2,491,191

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$429,952		\$429,952		\$429,952
70400 Tenant Revenue - Other	\$15,959		\$15,959		\$15,959
70500 Total Tenant Revenue	\$445,911	\$0	\$445,911	\$0	\$445,911
70600 HUD PHA Operating Grants	\$115,060		\$115,060		\$115,060
70610 Capital Grants	\$16,919		\$16,919		\$16,919
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue			\$0	\$0	\$0
70800 Other Government Grants					
71100 Investment Income - Unrestricted	\$779	\$3,417	\$4,196		\$4,196
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery					
71500 Other Revenue	\$13,000		\$13,000		\$13,000
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted					
70000 Total Revenue	\$591,669	\$3,417	\$595,086	\$0	\$595,086
91100 Administrative Salaries	\$74,011		\$74,011		\$74,011

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

**Entity Wide Revenue and Expense Summary**

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
91200 Auditing Fees	\$6,523		\$6,523		\$6,523
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$38,562		\$38,562		\$38,562
91600 Office Expenses	\$16,505		\$16,505		\$16,505
91700 Legal Expense	\$3,250		\$3,250		\$3,250
91800 Travel	\$9,657		\$9,657		\$9,657
91810 Allocated Overhead					
91900 Other	\$12,239		\$12,239		\$12,239
91000 Total Operating - Administrative	\$160,747	\$0	\$160,747	\$0	\$160,747
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other	\$4,166		\$4,166		\$4,166
92500 Total Tenant Services	\$4,166	\$0	\$4,166	\$0	\$4,166
93100 Water	\$25,728		\$25,728		\$25,728
93200 Electricity	\$65,956		\$65,956		\$65,956
93300 Gas	\$11,445		\$11,445		\$11,445
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
93800 Other Utilities Expense					
93000 Total Utilities	\$103,129	\$0	\$103,129	\$0	\$103,129
94100 Ordinary Maintenance and Operations - Labor	\$107,212		\$107,212		\$107,212
94200 Ordinary Maintenance and Operations - Materials and	\$21,961		\$21,961		\$21,961
94300 Ordinary Maintenance and Operations Contracts	\$33,030		\$33,030		\$33,030
94500 Employee Benefit Contributions - Ordinary Maintenance	\$54,737		\$54,737		\$54,737
94000 Total Maintenance	\$216,940	\$0	\$216,940	\$0	\$216,940
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0
96110 Property Insurance	\$27,833		\$27,833		\$27,833
96120 Liability Insurance	\$2,950		\$2,950		\$2,950
96130 Workmen's Compensation	\$5,534		\$5,534		\$5,534
96140 All Other Insurance	\$1,587		\$1,587		\$1,587
96100 Total insurance Premiums	\$37,904	\$0	\$37,904	\$0	\$37,904
96200 Other General Expenses					
96210 Compensated Absences	\$9,839		\$9,839		\$9,839
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents	\$385		\$385		\$385
96500 Bad debt - Mortgages					

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$10,224	\$0	\$10,224	\$0	\$10,224
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
96900 Total Operating Expenses	\$533,110	\$0	\$533,110	\$0	\$533,110
97000 Excess of Operating Revenue over Operating Expenses	\$58,559	\$3,417	\$61,976	\$0	\$61,976
97100 Extraordinary Maintenance	\$2,200		\$2,200		\$2,200
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments					
97350 HAP Portability-In					
97400 Depreciation Expense	\$142,284		\$142,284		\$142,284
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$677,594	\$0	\$677,594	\$0	\$677,594
10010 Operating Transfer In	\$24,326		\$24,326	\$0	\$24,326
10020 Operating transfer Out	-\$24,326		-\$24,326	\$0	-\$24,326

Housing Authority of the City of Kendallville (IN036)

KENDALLVILLE, IN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELIM	Total
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out					
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	-\$85,925	\$3,417	-\$82,508	\$0	-\$82,508
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$1,919,904	\$407,967	\$2,327,871		\$2,327,871
11040 Prior Period Adjustments, Equity Transfers and Correction	\$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					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity					
11180 Housing Assistance Payments Equity					

Housing Authority of the City of Kendallville (IN036)  
 KENDALLVILLE, IN  
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/Non Single Audit

Fiscal Year End: 12/31/2016

	Project Total	6.2 Component Unit - Blended	Subtotal	ELJM	Total
11190 Unit Months Available	1416		1416		1416
11210 Number of Unit Months Leased	1410		1410		1410
11270 Excess Cash	\$557,956		\$557,956		\$557,956
11610 Land Purchases	\$0		\$0		\$0
11620 Building Purchases	\$11,434		\$11,434		\$11,434
11630 Furniture & Equipment - Dwelling Purchases	\$5,722		\$5,722		\$5,722
11640 Furniture & Equipment - Administrative Purchases	\$16,609		\$16,609		\$16,609
11650 Leasehold Improvements Purchases	\$0		\$0		\$0
11660 Infrastructure Purchases	\$0		\$0		\$0
13510 CFFP Debt Service Payments	\$0		\$0		\$0
13901 Replacement Housing Factor Funds	\$0		\$0		\$0

SECTION III  
REPORTS ON COMPLIANCE  
AND  
ON INTERNAL CONTROL

**Independent Auditor's 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  
Kendallville Housing Authority  
Kendallville, Indiana

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 Kendallville Housing Authority, Indiana, (Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Kendallville Housing Authority's basic financial statements, and have issued our report thereon dated May 11, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Kendallville Housing 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 Kendallville Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kendallville Housing 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 Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Kendallville Housing 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.

*BRZ Sailor Khan LLC*

BRZ Sailor Khan, LLC  
May 11, 2017

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

**SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS**

December 31, 2016

The prior audit report for the year ended December 31, 2015 contained no significant deficiencies.

KENDALLVILLE HOUSING AUTHORITY

Kendallville, Indiana

**SCHEDULE OF FINDINGS AND RESPONSES**

December 31, 2016

The current audit report for the year ended December 31, 2016 disclosed no audit findings.