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October 28, 2020

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

We have reviewed the audit report of the City of Kendallville Housing Authority, which was opined upon by Barry E. Gaudette, CPA, Independent Public Accountant, for the period January 1, 2019 to December 31, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA
State Examiner

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

**FOR THE YEAR ENDED DECEMBER 31, 2019
AND
REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

HOUSING AUTHORITY OF THE CITY OF KENDALLVILLE
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INTRODUCTION

**Barry E. Gaudette, CPA, PC
731 S. Garfield Avenue
Traverse City, Michigan 49686**

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Kendallville, Indiana, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Kendallville'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 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the City of Kendallville, Indiana, as of December 31, 2019, and the respective changes in financial position and 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 4-11 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 opinions on the financial statements that collectively comprise the Housing Authority of the City of Kendallville, Indiana's basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The financial data schedule on pages 32-35 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 financial data schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has not presented the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2020, on our consideration of the Housing Authority of the City of Kendallville, Indiana'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 the effectiveness of the Housing Authority of the City of Kendallville, Indiana's 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 Housing Authority of the City of Kendallville, Indiana's internal control over financial reporting and compliance.

Barry E. Gaudette, CPA, PC

July 21, 2020

Housing Authority of the City of Kendallville
Management’s Discussion and Analysis (MD&A)
December 31, 2019
(Unaudited)

As management of the Housing Authority of the City of Kendallville, we offer reviewers of this audit report this narrative discussion and analysis of the Housing Authority of the City of Kendallville’s financial activities for the fiscal year ended December 31, 2019. This discussion and analysis letter of the Housing Authority of the City of Kendallville’s financial performance should be read in conjunction with the auditor’s opinion letter and the following financial statements.

The combined financial statements reflect all of the Housing Authority’s federally funded programs and activities in one place. The Housing Authority reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for “business-type activities” – activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term “net position” refers to the difference between assets and liabilities. The Housing Authority’s total net position as of December 31, 2019 was \$2,239,080. The net position decreased by \$24,640, a decrease of 1.1% from the prior fiscal year.

Revenues and contributions for the Housing Authority were \$654,276 for the year ended December 31, 2019. This was a decrease of \$71,287 or 9.8% from the prior fiscal year.

Expenses for the Housing Authority were \$662,957 for the year ended December 31, 2019. This was an increase of \$11,461 or 1.7% over the prior fiscal year.

HUD operating grants were \$149,744 for the year ended December 31, 2019. This was an increase of \$4,152 or 2.8% over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Housing Authority’s financial statements are presented as fund financial statements because the Housing Authority only has proprietary funds.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Required Financial Statements

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

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

The 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.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Authorities to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

FUND STATEMENTS

The Financial Data Schedule reports the Housing Authority's operations in more detail. The Housing Authority reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

FUND STATEMENTS (Continued)

Low Rent Public Housing Program: Under this program, the Housing Authority rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Authority to lease these units at a rate that is based on 30% of the household income or a flat rent.

Capital Fund Program: Under this program, the Housing Authority is awarded funds each year to use for Capital needs. The Housing Authority is awarded funds each year to use for Capital needs. The Housing Authority also has the ability to use up to 100% of these funds, if need be, to supplement Operating Subsidies, since the Housing Authority is considered a "small" PHA. This program is the primary funding source for physical improvements to its properties.

FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$2,239,080 at the close of the year ended December 31, 2019 a decrease from \$2,263,720 in 2018.

The unrestricted net position was \$824,113 as of December 31, 2019. It can be used to meet the Housing Authority's ongoing obligations. The Housing Authority had restricted net position of \$78,599 which would be subject to external restrictions on how they may be used. At the end of the current fiscal year, the Housing Authority is able to report positive balances in all categories of net position.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

FINANCIAL ANALYSIS (Continued)

CONDENSED STATEMENTS OF NET POSITION

	<u>12/31/19</u>	<u>12/31/18</u>	<u>Dollar Change</u>
Current and other assets	\$ 1,113,791	\$ 1,092,276	\$ 21,515
Capital assets, net	1,336,368	1,383,052	(46,684)
Deferred outflow of resources	<u>13,540</u>	<u>18,809</u>	<u>(5,269)</u>
Total Assets	<u>2,463,699</u>	<u>2,494,137</u>	<u>(30,438)</u>
Current liabilities	71,989	70,513	1,476
Noncurrent liabilities	122,798	132,002	(9,204)
Deferred inflow of resources	<u>29,832</u>	<u>27,902</u>	<u>1,930</u>
Total Liabilities	<u>224,619</u>	<u>230,417</u>	<u>(5,798)</u>
Net Position:			
Net Investment in capital assets	1,336,368	1,383,052	(46,684)
Restricted net position	78,599	0	78,599
Unrestricted net position	<u>824,113</u>	<u>880,668</u>	<u>(56,555)</u>
Total Net Position	<u>\$ 2,239,080</u>	<u>\$ 2,263,720</u>	<u>\$ (24,640)</u>

Total current assets increase of \$21,515 was due, in large part, to an increase in operating cash flows of \$89,846.

The largest portion of the Housing Authority's net position reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Housing 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 position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

FINANCIAL ANALYSIS (Continued)

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

	12/31/19	12/31/18	Dollar Change
Revenues and contributions			
Operating, non-operating, capital contributions:			
Tenant Revenue	\$ 452,796	\$ 446,783	\$ 6,013
HUD operating grants	149,744	145,592	4,152
Capital grants	44,989	128,404	(83,415)
Investment income	7,520	3,329	4,191
Other revenue	0	1,800	(1,800)
Loss of sale of asset	(773)	(345)	(428)
Total Revenues and Contributions	654,276	725,563	(71,287)
Expenses			
Personnel services	264,550	249,033	15,517
Tenant services	4,159	4,199	(40)
Utilities	119,616	121,605	(1,989)
Maintenance	58,785	47,648	11,137
Insurance	38,370	37,353	1,017
General expenses	58,209	58,351	(142)
Depreciation	119,268	133,307	(14,039)
Total Expenses	662,957	651,496	11,461
Other income and expense	43,216	(40,314)	83,530
Change in net position	34,535	33,753	782
Beginning net position	2,263,720	2,229,967	33,753
Prior period adjustment	(59,175)	0	(59,175)
Ending net position	\$ 2,239,080	\$ 2,263,720	\$ (24,640)

Revenues:

As can be seen in the above table total revenues and contributions decreased by \$71,287, in large part, due to capital grants decreasing by \$83,415 and tenant revenue increasing by \$6,013.

Housing Authority of the City of Kendallville's primary revenue sources are subsidies and grants received by HUD, as well as tenant revenue. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. The Housing Authority classified \$44,989 of capital grants as hard costs and \$37,117 as soft costs for the current year. For the year ending December 31, 2019, revenue generated by the Housing Authority accounted for \$452,796 (or 69.2% of total revenue), while HUD contributions accounted for \$194,733 (or 29.7% of total revenue).

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

FINANCIAL ANALYSIS (Continued)

Expenses:

Total expenses for the fiscal year ending December 31, 2019 were \$662,957 while for the year ending December, 31, 2018 they were \$651,496. This represents an 1.7% increase in our operating costs. The expenses increased, in large part, because of an increase in personnel costs of \$15,517.

The following represents changes in Federal Assistance received:

	<u>12/31/19</u>	<u>12/31/18</u>	<u>Dollar Change</u>
Public Housing Operating Subsidy	\$ 112,627	\$ 68,469	\$ 44,158
Capital Fund Program	82,106	205,527	(123,421)
Total	<u>\$ 194,733</u>	<u>\$ 273,996</u>	<u>\$ (79,263)</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Public Housing increased mainly due to HUD increasing its funding formula amount for the Housing Authority. The Capital Fund Program used less than one year's worth of capital funds in 2019.

Budget Analysis:

A Low Rent Public Housing Operating Budget for the year ending December 31, 2019 was presented to and approved by the Board of Commissioners. Actual results were in line with the budgeted amounts.

OPERATIONAL HIGHLIGHTS

The Housing Authority of the City of Kendallville provided the following housing for low-income individuals and families:

	<u>12/31/19</u>	<u>12/31/18</u>
Low Rent Public Housing Program	118	118

The Housing Authority had a lease up rate of 99.2% in the Low Rent program for the current year.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

CAPITAL ASSETS

The Housing Authority of the City of Kendallville's investment in capital assets, as of December 31, 2019 amounts to \$1,336,368 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment. For further detail of capital assets see Note C.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
December 31,**

	2019	2018	Dollar Change
Land	\$ 388,549	\$ 388,549	\$ 0
Buildings	6,023,064	5,977,796	45,268
Furniture, equipment and machinery	139,723	138,608	1,115
- dwellings			
Furniture, equipment and machinery	211,493	216,053	(4,560)
- administration			
Construction in progress	2,978	0	2,978
	<u>6,765,807</u>	<u>6,721,006</u>	<u>44,801</u>
Accumulated depreciation	(5,429,439)	(5,337,954)	(91,485)
Total	<u>\$ 1,336,368</u>	<u>\$ 1,383,052</u>	<u>\$ (46,684)</u>

Capital assets decreased by \$(46,684) due to a capital outlays of \$71,962, disposal of assets of \$(27,161), depreciation of \$(119,268), and an accumulated depreciation adjustment related to the sale of assets of \$27,783.

During the year ending December 31, 2019, our Capital Fund Program was used for parking lot improvements, replacing water softeners and water heaters for tenant units, replacing air conditioning for tenant units, new washer and dryers for laundry rooms, and new administrative furniture.

Capital projects planned for the next year include the following:

The planned capital expenditures for the next year will be used for computer upgrades, landscaping, masonry repairs, and fire alarm upgrades.

**Housing Authority of the City of Kendallville
Management's Discussion and Analysis (MD&A)
December 31, 2019
(Continued)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Authority is affected more by the Federal Budget than by local economic conditions.

Although the Housing Authority remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

We know of no other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Housing Authority's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Andrea Pyle, Executive Director
Housing Authority of the City of Kendallville
240 Angling Road
Kendallville, Indiana 46755-1002

FINANCIAL STATEMENTS

Housing Authority of the City of Kendallville
Statement of Net Position
December 31, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 732,408
Accounts receivable- net	108,084
Investments	259,290
Prepaid expenses	10,472
Inventories, net	3,537
Total Current Assets	1,113,791

Capital Assets:

Land	388,549
Buildings	6,023,064
Equipment - Administration	211,493
Equipment - Dwelling	139,723
Construction in progress	2,978
	6,765,807

Less: accumulated depreciation	(5,429,439)
Net Capital Assets	1,336,368

Deferred outflow of resources	13,540
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Total Assets	\$ 2,463,699
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LIABILITIES and NET POSITION

Current Liabilities:

Accounts payable	\$ 6,949
Accrued expenses	25,773
Tenant security deposit liability	37,680
Unearned revenue	1,587
Total Current Liabilities	71,989

Non-Current Liabilities:

Non-current accrued liabilities	12,078
Accrued pension	110,720
	122,798

Total Non-Current Liabilities	122,798
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Total Liabilities	194,787
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Deferred inflow of resources	29,832
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Net Position:

Net investment in capital assets	1,336,368
Restricted net position	78,599
Unrestricted net position	824,113
Total Net Position	2,239,080

Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 2,463,699
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See notes to financial statements

Housing Authority of the City of Kendallville
Statement of Revenues, Expenses, And
Changes in Net Position
Year Ended December 31, 2019

OPERATING REVENUES:

Dwelling rent	\$	452,796
Operating grants		149,744
		602,540

OPERATING EXPENSES:

Administrative		151,665
Tenant services		4,159
Utilities		119,616
Maintenance		212,164
Insurance		38,370
General expenses		17,715
Depreciation		119,268
		662,957
Total operating expenses		662,957
Operating income (loss)		(60,417)

NONOPERATING REVENUES:

Investment income		7,520
Other income		43,216
		50,736
Total non-operating revenues		50,736

NONOPERATING EXPENSES:

Loss on sale of asset		(773)
		(773)
Total non-operating expenses		(773)

CAPITAL CONTRIBUTIONS

		44,989
		44,989
Change in net position		34,535
Net Position, beginning		2,263,720
Prior period adjustment		(59,175)
		(59,175)
Net Position, ending	\$	2,239,080

See notes to financial statements

Housing Authority of the City of Kendallville
Statement of Cash Flows
Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and non dwelling rents	\$ 451,275
Cash received from operating grants	180,865
Cash payments to other suppliers of goods and services	(281,963)
Cash payments to employees for services	(260,331)
	89,846

Net cash provided by operating activities	89,846
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	(177)
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Net cash (used) by noncapital financing activities	(177)
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CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payments for capital acquisitions	(71,962)
Prior period adjustment	(59,175)
Disposal of assets	27,161
Loss on sale of assets	(773)
Depreciation adjustment	(27,783)
Capital Grants	44,989
	(87,543)

Net cash (used) by capital and related financing activities	(87,543)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(2,103)
Receipt of interest income	7,120
	5,017

Net cash provided by investing activities	5,017
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Net increase (decrease) in cash	7,143
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Cash and cash equivalents, beginning	725,265
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Cash and cash equivalents, ending	\$ 732,408
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See notes to financial statements

Housing Authority of the City of Kendallville
Statement of Cash Flows (Continued)
Year Ended December 31, 2019

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

Operating income (loss)	\$	(60,417)
Adjustments to reconcile operating (loss) to net cash provided (used)		
By operating activities:		
Depreciation		119,268
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-HUD		31,121
Accounts receivable-tenants		(207)
Inventories		38
Deferred outflow of resources		5,269
Prepaid expenses		395
Increase (decrease) in liabilities:		
Accounts payable-trade		1,776
Unearned revenue		(1,314)
Accrued wages/payroll taxes payable		1,492
Accrued compensated absences		2,727
Deferred inflow of resources		1,930
Accrued pension liabilities		(11,913)
Accrued liabilities-other		(319)
		89,846
Net cash provided by operating activities	\$	89,846

See notes to financial statements

Housing Authority of the City of Kendallville
Notes to Financial Statements
December 31, 2019

NOTE A: DESCRIPTION OF THE HOUSING AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing Authority of the City of Kendallville (“Housing Authority”) is an independent municipal entity created by the City of Kendallville pursuant to Indiana state law and the National Housing Act of 1937. Although the Housing Authority maintains close ties with the City of Kendallville in several respects, the Housing Authority is not a component unit of the City, as defined by the Governmental Accounting Standards Board, since the City is not financially accountable for the operations of the Housing Authority, and has no responsibility to fund its deficits or receive its surpluses. The Housing Authority operates under a Board of Commissioners form of government to provide safe and decent housing for eligible low and moderate income families and elderly individuals. The Board is comprised of five members, all City of Kendallville residents, appointed by the County Board.

1. Reporting Entity

The Housing Authority’s financial statements include the accounts of all of the Housing Authority’s operations. The Housing Authority maintains its accounting records by program and operates the following programs:

Low Income Public Housing

This program accounts for all activities relating to the leasing and operation of apartments in buildings that were constructed and are owned by the Housing Authority. These units are rented to low income families and low income elderly, disabled, and special needs individuals. The properties were constructed with grants and/or loans provided by the U.S. Department of Housing and Urban Development (HUD). The Housing Authority receives grants from HUD to subsidize operating costs. Tenants are charged rents based on a percentage of their incomes. HUD subsidizes 118 federal public housing units through this program.

Public Housing Capital Fund

HUD provides grant funds to authorities with Low Rent Public Housing units on a formula basis. The funds are predominantly used to make physical improvements to buildings and dwelling units owned by the Housing Authority under the Low Income Public Housing Program. A designated portion of these funds may also be used to support operations and to make improvements in the management and operation of the Housing Authority’s Low Income Public Housing Program.

NOTE A: DESCRIPTION OF THE HOUSING AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government. Interfund activity has been eliminated in the preparation of these statements.

The Housing Authority is a special-purpose government entity engaged only in business-type activities and, as such, the financial statements are presented as a single enterprise fund.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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 Housing Authority are charges to customers for rents. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

If/when, both restricted and unrestricted resources are available for use, it is the Housing Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE A: DESCRIPTION OF THE HOUSING AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Budgets and Budgetary Accounting

The Housing 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 U.S. Department of Housing and Urban Development for their approval, if required.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, savings accounts, and certificates of deposits or short term investments with an original maturity of three months or less. The cash equivalents are recorded at cost, which approximates market.

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.

7. Tenant Accounts Receivable and Allowance for Bad Debts

Receivables consist of all revenues earned at year end and not yet received. Tenant accounts receivable, 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.

8. Inventories

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

9. Prepaid Expenses

Prepaid expenditures, such as insurance premiums and deferred costs, which are expected to be written off within the next fiscal year, are included in net current assets.

10. 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.

11. 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.

NOTE A: DESCRIPTION OF THE HOUSING AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Inter-Program Activity

During the course of operations, transactions occur within individual programs that may result in amounts owed or transfers between programs. Offsetting inter-program receivables and payables as well as offsetting inter-program transfers are eliminated for financial statement presentation. For the year ended December 31, 2019, there were no inter-program receivables and payables, and there was \$115,716 in operating transfers.

13. Buildings and Equipment

Buildings and equipment are recorded at historical cost. Costs in excess of \$100 that materially add to the productive capacity and extend the life of an asset longer than one year are capitalized, while maintenance and repair costs are expensed as incurred. Buildings and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

Land and land improvements include approximately \$388,549 of capitalized land that is not subject to depreciation.

14. Income Taxes

The Housing Authority is a quasi-governmental entity. The Housing Authority is not subject to Federal or State income taxes.

15. 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 revenue and expenses during the period. Actual results could differ from those estimates.

16. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will, when applicable, report separate sections for deferred outflows or resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources* a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE A: DESCRIPTION OF THE HOUSING AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17. Unearned Revenue

The Housing Authority reports unearned revenue in connection with resources that have been received, but not yet earned.

18. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

19. Net Position

Net positions are comprised of three categories (1) net investment in capital assets, (2) restricted, and (3) unrestricted. The Housing Authority's positive value of unrestricted net position in the primary government may be used to meet ongoing obligations. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Housing Authority's policy is to first apply restricted resources. Each component of net position is reported separately on the statement of net position.

- i. Net Investment in capital assets – This category consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, and improvements of those assets.
- ii. Restricted – This category equals the restricted cash of the Housing Authority and consists of net position restricted for use by (1) external groups such as grantors, creditors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- iii. Unrestricted – This category includes all of the remaining net position that do not meet the definition of the other two categories.

20. Subsequent Events

The financial statements and related disclosures include evaluation of events through and including July 21, 2020, which is the date the financial statements were available to be issued.

NOTE B: CASH AND CASH EQUIVALENTS

Indiana Code authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Indiana. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Indiana or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Indiana.

The Housing Authority has designated one bank for the deposit of its funds. The Housing Authority's deposits are included on the balance sheet under the classification cash and cash equivalents and consist of the following:

Cash – operations (checking and savings accounts)	\$	732,408
Certificate of deposit		<u>107,256</u>
Total	\$	<u>839,664</u>

The above deposits are classified by Governmental Accounting Standards Board Statement Nos. 3 and 40 in the following categories as of December 31, 2019:

Bank deposits (checking and savings accounts and certificate of deposit)	\$	839,564
Petty cash		<u>100</u>
Total	\$	<u>839,664</u>

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority's deposits may not be returned to it. At year end, The Housing Authority had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Housing Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Housing Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	<u>Balance 12/31/18</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 12/31/19</u>
Low Rent Program				
Land	\$ 388,549	\$ 0	\$ 0	\$ 388,549
Buildings	5,977,796	63,306	(18,038)	6,023,064
Furniture, equipment & machinery - dwellings	138,608	2,245	(1,130)	139,723
Furniture, equipment & machinery - administration	216,053	3,433	(7,993)	211,493
Construction in progress	0	2,978	0	2,978
	<u>6,721,006</u>	<u>\$ 71,962</u>	<u>\$ (27,161)</u>	<u>6,765,807</u>
Less accumulated depreciation	<u>(5,337,954)</u>	<u>\$ (119,268)</u>	<u>\$ 27,783</u>	<u>(5,429,439)</u>
Total	<u>\$ 1,383,052</u>			<u>\$ 1,336,368</u>

Depreciation expense was charged to functions/programs of the government as follows:

Business-type activities:	
Low Rent Program	\$ 111,271
Capital Fund	<u>7,997</u>
Total	<u>\$ 119,268</u>

NOTE D: NON-CURRENT LIABILITIES

As of December 31, 2019, the non-current liabilities are comprised of the following:

Accrued pension	\$ 110,720
Accrued compensated absences	<u>12,078</u>
	<u>\$ 122,798</u>

The following is a summary of changes in non-current liabilities for the year ended December 31, 2019:

	<u>Balance 12/31/18</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/19</u>	<u>Amounts Due within One Year</u>
Accrued pension	\$ 122,633	\$ 0	\$ (11,913)	\$ 110,720	\$ 0
Accrued absences	9,369	2,709	(0)	12,078	1,359
	<u>\$ 132,002</u>	<u>\$ 2,709</u>	<u>\$ (11,913)</u>	<u>\$ 122,798</u>	<u>\$ 1,359</u>

NOTE E: COMMITMENTS AND CONTINGENCIES

Commitments – Construction

At December 31, 2019, the Housing Authority had the following capital fund grants:

	<u>IN36P036501-18</u>	<u>IN36P036501-19</u>
Funds Approved	\$ 192,128	\$ 201,116
Funds Expended	(37,112)	(0)
Excess of Funds Approved	<u>\$ 155,016</u>	<u>\$ 201,116</u>
Funds Advanced (HUD Grants)	\$ 37,112	\$ 0
Funds Expended	(37,112)	(0)
Excess of Funds Advanced	<u>\$ 0</u>	<u>\$ 0</u>

Contingencies

The Housing 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 Housing Authority in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

NOTE F: RISK MANAGEMENT

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

NOTE G: PRIOR PERIOD ADJUSTMENT

The Housing Authority made a prior period adjustment of \$(59,175) to correct prior year operating transfers.

NOTE H: RETIREMENT PLAN

Description of Pension Plan

The Public Employees' Retirement Fund (PERF) is a cost-sharing, multiple-employer defined benefit plan based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) aspects to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Currently, the PERF ASA Only Plan is available only to employees of the State. Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

Membership

PERF members are officers and employees of units of State and local governments in Indiana (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the PERF Hybrid Plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after December 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and TRF have the option of choosing from which of these funds they would like to retire.

Contributions

The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers.

NOTE H: RETIREMENT PLAN (CONTINUED)

PERF Hybrid Plan Plan Description

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement. Retirement Benefits – Defined Benefit Pension the PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. Pension benefits (non-ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service. A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation. A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above. A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service. Retirement Benefits – Annuity Savings Account Members are required to participate in an Annuity Savings Account (ASA). The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member.

NOTE H: RETIREMENT PLAN (CONTINUED)

PERF Hybrid Plan

Plan Description (Continued)

In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's State or political subdivision. Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

Guaranteed Fund – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.

Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.

Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.

International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.

Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.

Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.

Target Date Funds – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Money Market Fund – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may make changes to their investment directions daily and investments are reported at fair market value of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly.

NOTE H: RETIREMENT PLAN (CONTINUED)

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided benefits.

ASA Only Plan Plan Description

The PERF ASA Only Plan was established by the Indiana Legislature in 2011 with an effective date of February 21, 2013 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before February 21, 2013 were members of the PERF Hybrid Plan or (2) on or after February 21, 2013 do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the ASA-Only Plan as an option to their employees. Since inception 759 members have selected the ASA Only Plan, or approximately 8 percent of eligible new hires of the State. Currently, the PERF ASA Only Plan is available only to employees of the State. As of July 1, 2017, employees for political subdivisions may be eligible to participate. Retirement Account the PERF ASA Only Plan maintains an annuity savings account for each member. Each member's account consists of two (2) subaccounts within the annuity savings account structure. There is a member contribution subaccount (which is the same as the annuity savings account in the PERF Hybrid Plan) and an employer contribution subaccount. The member's contribution subaccount consists of the member's contributions, set by statute at three (3) percent of covered payroll as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The State shall pay the member's contributions on behalf of the member. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set by INPRS Board of Trustees in accordance with IC 5-10.2-2-11. The PERF ASA Only Plan allows members to actively participate in managing their retirement benefits through self directed investment options. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. The members can direct their investments among the following aforementioned eight (8) investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds. A description of each of these Funds is earlier in this note in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section, except for the Stable Value Fund: Stable Value Fund (available only to PERF ASA Only members) - This fund's objective is to provide a market rate of return consistent with the preservation of principal through a shorter maturity, high quality portfolio. A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, a member must meet vesting requirements (full years of participation) to qualify for a distribution.

NOTE H: RETIREMENT PLAN (CONTINUED)

The vesting schedule is as follows: disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent. Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later,

One (1) year of participation = 20%
Two (2) years of participation = 40%
Three (3) years of participation = 60%
Four (4) years of participation = 80%
Five (5) years of participation = 100%

A member who terminates service with their employer is entitled to withdraw the total amount in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity provided through INPRS. If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw the total amount in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity provided through INPRS if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees. If a member dies while in active service or after terminating service in a position covered by the PERF ASA Only Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition, if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

NOTE H: RETIREMENT PLAN (CONTINUED)

Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.

Net Pension Liability

At December 31, 2019 and 2018, the Housing Authority reported a liability of \$110,720 and \$122,633, respectively, for its proportionate share of the net pension liability.

Actuarial Assumptions

Significant actuarial assumptions and other inputs used to measure the total pension liability:

	2019 Valuation
Type of Plan	The Public Employees' Retirement Fund is a cost-sharing multiple-employer plan for GASB accounting purposes.
Measurement Date	June 30, 2019
Valuation Date	
Assets:	June 30, 2019
Liabilities:	June 30, 2018*
Inflation	2.25%
Future Salary Increases	2.50% - 4.25% based on age
Costs of Living Increases	
As of June 30, 2019	In lieu of a COLA on January 1, 2020 and January 1, 2021, members in pay were provided a 13th check on October 1, 2019 and October 1, 2020. Thereafter, the followings COLAs, compounded annually, were assumed: 0.4% beginning on January 1, 2022 0.5% beginning on January 1, 2034 0.6% beginning on January 1, 2039
As of June 30, 2018	In lieu of a COLA on January 1, 2019, members in pay were provided a 13th check on October 1, 2018. It is assumed a 13 th check would continue for the 2020 and 2021 fiscal years. Thereafter, the followings COLAs, compounded annually, were assumed: 0.4% beginning on January 1, 2022 0.5% beginning on January 1, 2034 0.6% beginning on January 1, 2039

* The TPL as of June 30, 2019 was determined based on an actuarial valuation prepared as of June 30, 2018 rolled forward one year to June 30, 2019, using the following key actuarial assumptions and other inputs, such as benefit accruals and actual benefit payments during that time period.

NOTE H: RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Assumption (Healthy) - RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.

Mortality Assumption (Disabled) - RP-2014 (with MP-2014 improvement removed) Disability Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.

Experience Study - The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2015 actuarial valuation based on the results of the study.

Discount Rate - 6.75%, net of investment expenses

The discount rate is equal to the expected long-term rate of return on plan investments, net of investment expense and including price inflation. There was no change in the discount rate from the prior measurement date.

The INPRS Board of Trustees has established a funding policy of setting the employer contribution rate equal to the greater of 11.2% (the current contribution rate) or a rate equal to the actuarially determined contribution rate, which is based on the assumptions and methods selected by the Board for the annual actuarial valuations and projected covered member payroll. The June 30, 2019 actuarial valuation assumes a long-term rate of return on assets of 6.75%, a 20-year level dollar closed method for amortizing the future layers of unfunded actuarial accrued liability (30 years for amortization layers established prior to June 30, 2016), and a 5-year smoothing method for recognizing investment gains and losses in the actuarial value of assets.

In the past several years, the Board has followed its current funding policy and the State has complied in its contributions to the plan. Therefore, if past practice is continued, the appropriations will be sufficient to fully fund the plan within 20 to 30 years. In the past, deterministic projections have shown the actuarially determined contribution rate to reach a peak of 10.9% which is slightly below the current rate. As a result, it is presumed that the projected plan assets will be sufficient to cover the future benefit payments for current members and a detailed projection of plan assets and cash flows has not been prepared.

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:

1% Decrease (5.75%)	Discount rate (6.75%)	1% Increase (7.75%)
\$177,817	\$110,720	\$54,755

NOTE H: RETIREMENT PLAN (CONTINUED)***Pension Expense***

For the year ended December 31, 2019, the Housing Authority recognized pension expense of \$15,335, 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 outflows of resources - debit	Deferred inflows of resources - credit
Differences between expected and actual experience	\$ 2,932	\$ 0
Net differences between projected and actual	0	5,233
Change of Assumptions	25	12,036
Changes in proportion and differences between employer contributions and proportionate share of contributions	352	12,563
Total	<u>\$ 3,309</u>	<u>\$ 29,832</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction of the NPL in 2019:

	Amortization of net deferred outflows/(inflows) of resources – debit/(credit)
2020	\$ (9,239)
2021	(13,037)
2022	(3,842)
2023	(405)
2024	0
Thereafter	0
Total	<u>\$ (26,523)</u>

Net Pension Liability

Net pension liability as of 2018	\$ 122,633
Activity in FY 2019	
Deferred Outflow/Inflow of Resources	
Differences between expected and actual	1,336
Net difference between projected and actual investment	(8,865)
Change of assumptions	7,387
Changes in proportion and differences between employer contributions and proportionate share of contributions	(7,579)
Pension Expense/Income	15,335
Contributions	(19,527)
Total Activity in FY 2019	<u>(11,913)</u>
Net pension liability as of 2019	<u>\$ 110,720</u>

The information presented above has not been audited.

OTHER INFORMATION

Housing Authority of the City of Kendallville
Financial Data Schedule
Year Ended December 31, 2019

FDS Line Item No.	Low Rent Program 14.850	6.2 Component Unit - Blended	Totals
ASSETS			
Current assets:			
111	\$ 464,966	\$ 151,163	\$ 616,129
113	78,599	0	78,599
114	37,680	0	37,680
100	<u>581,245</u>	<u>151,163</u>	<u>732,408</u>
Receivables:			
122	62,942	0	62,942
126	898	0	898
126.1	(200)	0	(200)
127	43,216	0	43,216
129	577	651	1,228
120	<u>107,433</u>	<u>651</u>	<u>108,084</u>
131	<u>107,256</u>	<u>152,034</u>	<u>259,290</u>
Other Current Assets:			
142	10,472	0	10,472
143	4,041	0	4,041
143.1	(504)	0	(504)
	<u>14,009</u>	<u>0</u>	<u>14,009</u>
150	<u>809,943</u>	<u>303,848</u>	<u>1,113,791</u>
Noncurrent Assets:			
Fixed Assets:			
161	388,549	0	388,549
162	6,023,064	0	6,023,064
163	139,723	0	139,723
164	199,370	12,123	211,493
166	(5,417,316)	(12,123)	(5,429,439)
167	2,978	0	2,978
160	<u>1,336,368</u>	<u>0</u>	<u>1,336,368</u>
180	<u>1,336,368</u>	<u>0</u>	<u>1,336,368</u>
200	<u>13,540</u>	<u>0</u>	<u>13,540</u>
290	<u>\$ 2,159,851</u>	<u>\$ 303,848</u>	<u>\$2,463,699</u>

Housing Authority of the City of Kendallville
Financial Data Schedule
(Continued)
Year Ended December 31, 2019

FDS Line Item No.	Low Rent Program 14.850	6.2 Component Unit - Blended	Totals
LIABILITIES and NET POSITION			
Current liabilities:			
312	\$ 6,949	0	\$ 6,949
321	13,670	0	13,670
322	1,359	0	1,359
341	37,680	0	37,680
342	1,587	0	1,587
346	10,744	0	10,744
310	<u>71,989</u>	<u>0</u>	<u>71,989</u>
Non-current liabilities:			
354	12,078	0	12,078
357	110,720	0	110,720
350	<u>122,798</u>	<u>0</u>	<u>122,798</u>
300	<u>194,787</u>	<u>0</u>	<u>194,787</u>
400	<u>29,832</u>	<u>0</u>	<u>29,832</u>
Net Position:			
508.4	1,336,368	0	1,336,368
511.4	78,599	0	78,599
512.4	520,265	303,848	824,113
513	<u>1,935,232</u>	<u>303,848</u>	<u>2,239,080</u>
600	<u>\$ 2,159,851</u>	<u>\$ 303,848</u>	<u>\$ 2,463,699</u>

Housing Authority of the City of Kendallville
Financial Data Schedule
(Continued)
Year Ended December 31, 2019

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872	6.2 Component Unit - Blended
Revenues				
70300	Net tenant rental revenue	\$ 436,880	\$ 0	\$ 0
70400	Tenant revenue – other	15,916	0	0
70500	Total tenant revenue	<u>452,796</u>	<u>0</u>	<u>0</u>
70600	HUD PHA operating grants	112,627	37,117	0
70610	Capital grants	0	44,989	0
71100	Investment income-unrestricted	1,799	0	5,721
71600	Gain or loss of sale of capital asset	<u>(773)</u>	<u>0</u>	<u>0</u>
70000	Total revenue	<u>566,449</u>	<u>82,106</u>	<u>5,721</u>
Expenses				
Administrative:				
91100	Administrative salaries	82,379	0	0
91200	Auditing fees	3,950	0	0
91400	Advertising and marketing	9	0	0
91500	Employee benefit contributions	28,792	0	0
91600	Office expenses	23,404	0	0
91700	Legal expenses	2,275	0	82
91900	Other	<u>10,771</u>	<u>0</u>	<u>3</u>
91000	Total operating-administrative	<u>151,580</u>	<u>0</u>	<u>85</u>
Tenant services:				
92400	Tenant services-other	<u>4,159</u>	<u>0</u>	<u>0</u>
92500	Total tenant services	<u>4,159</u>	<u>0</u>	<u>0</u>
Utilities:				
93100	Water	33,143	0	0
93200	Electricity	71,545	0	0
93300	Gas	<u>14,928</u>	<u>0</u>	<u>0</u>
93000	Total utilities	<u>119,616</u>	<u>0</u>	<u>0</u>
Ordinary maintenance and operations:				
94100	Labor	114,551	0	0
94200	Materials and other	20,164	0	0
94300	Contracts	38,621	0	0
94500	Employee benefit contributions	<u>38,828</u>	<u>0</u>	<u>0</u>
94000	Total maintenance	<u>\$ 212,164</u>	<u>\$ 0</u>	<u>\$ 0</u>

<u>Totals</u>	
\$	436,880
	15,916
	<u>452,796</u>
	149,744
	44,989
	7,520
	(773)
	<u>654,276</u>

	82,379
	3,950
	9
	28,792
	23,404
	2,357
	10,774
	<u>151,665</u>

	4,159
	<u>4,159</u>

	33,143
	71,545
	14,928
	<u>119,616</u>

	114,551
	20,164
	38,621
	38,828
\$	<u>212,164</u>

Housing Authority of the City of Kendallville
Financial Data Schedule
(Continued)
Year Ended December 31, 2019

FDS Line Item No.	Low Rent Program 14.850	Capital Fund Program 14.872	6.2 Component Unit - Blended
	Expenses (continued)		
	Insurance:		
96110	26,063	0	0
96120	2,895	0	0
96130	7,960	0	0
96140	1,452	0	0
96100	<u>38,370</u>	<u>0</u>	<u>0</u>
	Other general expenses:		
96200	0	0	11
96210	16,199	0	0
96400	1,505	0	0
96000	<u>17,704</u>	<u>0</u>	<u>11</u>
96900	<u>543,593</u>	<u>0</u>	<u>96</u>
97000	<u>22,856</u>	<u>82,106</u>	<u>5,625</u>
	Other Expenses:		
97400	<u>111,271</u>	<u>7,997</u>	<u>0</u>
90000	<u>654,864</u>	<u>7,997</u>	<u>96</u>
	Other Financing Sources (Uses):		
10010	115,716	0	0
10020	0	(37,117)	(78,599)
10080	43,216	0	0
10100	<u>158,932</u>	<u>(37,117)</u>	<u>(78,599)</u>
10000	70,517	36,992	(72,974)
11030	1,886,898	0	376,822
11040	(22,183)	(36,992)	0
	<u>\$ 1,935,232</u>	<u>\$ 0</u>	<u>\$ 303,848</u>
11190	1,416		
11210	1,406		

<u>Totals</u>	
	26,063
	2,895
	7,960
	<u>1,452</u>
	<u>38,370</u>
	11
	16,199
	<u>1,505</u>
	<u>17,715</u>
	<u>543,689</u>
	<u>110,587</u>
	<u>119,268</u>
	<u>662,957</u>
	115,716
	(115,716)
	<u>43,216</u>
	<u>43,216</u>
	34,535
	2,263,720
	(59,175)
	<u>\$ 2,239,080</u>

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Barry E. Gaudette, CPA, PC
731 S. Garfield Avenue
Traverse City, Michigan 49686

**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 Housing Commissioners
Housing Authority of the City of Kendallville
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 business-type activities of the Housing Authority of the City of Kendallville, Indiana, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Kendallville, Indiana's basic financial statements, and have issued our report thereon dated July 21, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the City of Kendallville, Indiana'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 Housing Authority of the City of Kendallville, Indiana's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Kendallville, Indiana'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Housing Authority of the City of Kendallville, Indiana'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry E. Gaudette, CPA

July 21, 2020