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May 28, 2014

Board of Directors
Michigan City Housing Authority
621 E. Michigan Blvd.
Michigan City, IN 46360

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period October 1, 2007 to September 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Michigan City Housing Authority, as of September 30, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

TWELVE MONTHS ENDED SEPTEMBER 30, 2008

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

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PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

Board of Directors
Michigan City Housing Authority
Michigan City, Indiana

I have audited the accompanying financial statements of Michigan City Housing Authority, as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Michigan City Housing Authority, as of September 30, 2008 and the respective changes in financial position and cash flows for the year end in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 6, 2009, on my consideration of the Michigan City Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Michigan City Housing Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Michigan City Housing Authority. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Michigan City Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all materials respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Pamela J. Simpson". The signature is written in black ink on a light-colored background.

Certified Public Accountant

Decatur, Illinois
March 6, 2009

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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The Housing Authority of the City of Michigan City, Indiana (“the Authority”) Management’s Discussion and Analysis Report is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority’s financial activity, (c) identify changes in the Authority’s financial position (it’s ability to address the next and subsequent year challenges) and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis will be presented at the beginning of the basic financial statement each year.

Since the Management’s Discussion and Analysis (MD&A) is designed to focus on the current year’s activities, resulting changes and currently known facts, it should be read in conjunction with the Authority’s basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Authority’s net assets reflect only a slight change in 2008. Since the Authority engages only in business-type activities, the increase is all but one of the categories of business-type net assets. Net Assets were \$5.8 million and \$4.6 million for 2008 and 2007 respectively.
- ❖ Business-type activities revenue for 2008 was \$3,053,356.
- ❖ The total expenses of all Authority programs increased by \$5,852 (or .02%). Total expenses were \$3.2 million and \$3.2 million for 2008 and 2007 respectively.
- ❖ The Authority had \$638,147 in Tenant Revenue, \$1,887,589 in HUD PHA Operating Grants and \$347,828 of HUD Capital Grants for the year ended September 30, 2008.
- ❖ Authority investments decreased by \$527,994 (or 83%) during the year. Total investments on September 30, 2008 were \$109,877.

FINANCIAL CONTACT

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Authority’s Executive Director.

Mrs. Lenda J. Wilson
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Of Michigan City, Indiana
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HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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USING THIS ANNUAL REPORT

The following is provided to outline the contents of the Authority's Management Discussion and Analysis Report. This report precedes and is required supplementary information to the Authority's basic financial statements for the annual period ending September 30, 2008.

❖ **Financial Statement Overview**

- Authority-Wide Financial Statements
- Fund Financial Statements
- The Authority's Fund

❖ **Authority-wide Statements**

- Table 1 – Statement of Net Assets and Statement Analysis
- Table 2 – Changes in Unrestricted Net Assets and Analysis
- Table 3- Statement of Revenues, Expenditures and Changes in Net Assets and Analysis Change
- Table 4-Capital Assets at Year End
- Table 5-Changes in Capital Assets
- Table 6-Outstanding Debt at Year End

❖ **Economic Factors Affecting the Authority**

❖ **Overview of Budgets**

❖ **MD&A Financial Contact**

The primary focus of the Authority's financial statements is on both the Authority as a whole (Authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow reader to address relevant questions, broaden a basis for comparison (year to year, budget to actual) and enhance the Authority's accountability.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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Authority-Wide Financial Statements

The Authority-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into columns, which add to a total for the entire Authority.

These Statements include a Statement of Net Assets, which is similar to a Balance sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", formerly as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets (the "Unrestricted Net assets") is designed to represent the net available liquid(non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: This component of Net Assets consists of restricted assets on which constraints are placed by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The Authority-wide financial statements also include a Statement of Revenues Expenses and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, maintenance, depreciation and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Finally, a Statement of Cash Flow is included in the basic financial statements, which discloses net cash provided by or used for: operating activities, non-capital financing activities, and capital and related financing activities.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by private sector accounting.

Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

The Authority's Funds

Business Type Funds

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant Funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

Turnkey III Homeownership – Under Turnkey III Homeownership program, the Authority encourages self-sufficiency through homeownership. The housing units in this program are owned by the PHA. During the period of tenancy, the family makes "mortgage" payments based on their income and maintains their own property. In Turnkey III, the PHA compensates the family by crediting certain amounts budgeted for maintenance to family equity accounts. A non-routine maintenance reserve is established for each unit. When the family's income and equity accounts increased to the point where it could obtain permanent financing for the unit or when the equity account equaled the unamortized debt and closing costs, ownership is passed to the family. Turnkey homes are amortized over a thirty year period.

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

Business Activities – Some rents of some residential units are subsidized by HUD under the Section 8 Housing Choice Voucher Program. All such assistance is "voucher based", i.e.; the subsidy is committed by HUD for the assisted participant contractually for a determined period. Business Activity provides rental housing in connection with the development of owned rental housing financed with any type of construction or permanent financing, including the applicable FHA Multifamily Mortgage Insurance Programs.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

AUTHORITY-WIDE STATEMENTS

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	2008	2007	Variance	Percentage Change
Cash	1,224,012	670,903	553,109	82.4%
Other Current Assets	1,138,211	1,037,762	100,449	9.7%
Capital Assets	3,811,083	3,054,353	756,730	24.8%
Non Current Assets	0	0	0	0.0%
Total Assets	6,173,306	4,763,018	1,410,288	29.6%
Current Liabilities	304,746	142,284	162,462	114.2%
Long Term Liabilities	53,349	32,026	21,323	66.6%
Total Liabilities	358,095	174,310	183,785	105.4%
Net Invested in Capital Assets	3,811,083	3,054,353	756,730	24.8%
Restricted Net Assets	177,474	200,516	(23,042)	-11.5%
Unrestricted Net Assets	1,826,654	1,333,839	492,815	36.9%
Total Net Assets	5,815,211	4,588,708	1,226,503	26.7%

Major Factors Affecting the Statement of Net Assets

Current assets decreased slightly during the year and other liabilities increased). Current assets (primarily cash and investments) decreased due to the unavailability of excess operating revenues for investment.

Capital assets changed moderately, increasing from \$3.0 million to \$3.8 million. The \$.8 million increase is primarily attributable to the current year transfer of property, depreciation and amortization. For more detail see "Capital Assets and Debt Administration" below.

**HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008**

Analysis of Entity Wide Revenues

The Authority administers the following programs and the grants revenues generated from these programs during Fiscal Year Ending 2008 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$1,198,823
Section 8 Vouchers	\$1,266,494
Capital Funds	\$ 435,234
Resident Opportunity and Supportive	\$ 7,377
Business Activities	\$ 142,078
State and Local	\$ 3,350

Statement of Change of Unrestricted Net Assets

The following table presents details on the change in Unrestricted Net Assets

TABLE 2

CHANGE OF UNRESTRICTED NET ASSESTS

Unrestricted Net Assets 09/30/07	\$ 1.3
Results of Operations	(0.5)
Adjustments:	
Depreciation (1)	0.5
Transfer from MCHDI	0.5
Adjusted Results from Operations	<u>0.5</u>
Unrestricted Net Assets 09/30/08	<u><u>\$1.8</u></u>

Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets

While the results of operations are a significant measure of the Authority's activities, the analysis of the change in Unrestricted Net Assets provides a clearer understanding of the Authority's financial stability.

**HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008**

Statement of Revenues, Expenses and Changes in Net Assets

The following compares the revenues and expenses for the current and previous year. The Authority is engaged only in Business-Type Activities.

TABLE 3

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Total Tenant Revenue	638,147	529,640	108,507	21%
HUD Operating Grants	1,886,736	1,921,195	-34,459	-2%
HUD Capital Grants	347,828	328,046	19,782	6%
Other Grants	44,574	0	44,574	100%
Investment Income	24,976	54,440	-29,464	-54%
Fraud Recovery	2,746	0	2,746	100%
Other Revenue	93,965	89,049	4,916	6%
Gain (Loss) on Sale of Assets	13,158	3,502	9,656	276%
Total Revenue	<u>3,052,130</u>	<u>2,925,872</u>	<u>126,258</u>	<u>4%</u>
<u>Expenses</u>				
Administrative	590,811	565,268	25,543	5%
Tenant Services	12,755	2,704	10,051	372%
Utilities	347,573	311,873	35,700	11%
Maintenance	451,219	388,540	62,679	16%
Protective Services	30,857	31,583	-726	-2%
General Expense	82,040	96,210	-14,170	-15%
Extraordinary Maintenance	7,978	6,246	1,732	28%
Casualty Losses	1,165	-2,456	3,621	-147%
Housing Assistance Payments	1,144,149	1,109,911	34,238	3%
Depreciation Expense	519,185	674,747	-155,562	-23%
Total Expenses	<u>3,187,732</u>	<u>3,184,626</u>	<u>3,106</u>	<u>0%</u>

Major Factors Affecting the Change in Net Assets

Tenant revenue increased. This increase was primarily due to the change in the property transfer, economic environment and plant relocation and the efforts of staff in maintaining a public housing occupancy rate of 99% and a Turnkey III occupancy rate of 97%.

While the Authority's Low Rent and Section 8 Programs incurred no HUD funding cuts during the period, Capital Grant funding of high end capital improvements had no cuts either.

Total expenses increased \$5.9 thousand. This increase was primarily due to maintenance expenses.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

CAPITAL ASSETS AT YEAR END (NET OF DEPRECIATION)

As of year-end, the Authority had \$3.8 million invested in a variety of capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$0.8 thousand from the prior year-end.

TABLE 4
CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	2008	2007	Variance	Percentage Change
Land and land rights	417,611	367,457	50,154	13.6%
Building	14,571,828	13,135,297	1,436,531	10.9%
Equipment - Administrative	209,419	219,040	-9,621	-4.4%
Equipment Dwelling	449,148	560,136	-110,988	-19.8%
Leasehold Improvements	951,820	951,820	0	0.0%
Construction in Progress	11,610	52,710	-41,100	-78.0%
Total Fixed Assets	16,611,436	15,286,460	1,324,976	8.7%
Accumulated Depreciation	-12,800,353	-12,232,107	-568,246	4.6%
Net Fixed Assets	<u>3,811,083</u>	<u>3,054,353</u>	<u>756,730</u>	<u>24.8%</u>

Change in Capital Assets

The following reconciliation summarizes the change in Capital Assets:

TABLE 5
CHANGE IN CAPITAL ASSETS:

	<u>Business-Type Activities</u>
Beginning Balance	\$ 3,054,353
Transfer from MCHDI	831,632
Additions	447,071
Retirements	(2,788)
Depreciation	<u>(519,185)</u>
Total	<u>\$ 3,811,083</u>

This year's major additions from Business-Type Activities are:

Capital Improvements	\$ 347,828
Equipment Purchases	\$ 31,855
Betterments and Additions	\$ 67,388

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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Debt Outstanding

As of year-end, the Authority had \$0 in debt (mortgages, notes, etc.) outstanding.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- ❖ The uncertainty in the level of Federal funding available from the Department of Housing and Urban Development
- ❖ Local labor supply and demand, which can affect salary and wage rates
- ❖ Local inflation, recession and employment trends, which can affect resident incomes and therefore the amount of rental income and vacancy rates
- ❖ Inflationary pressure on utility rates, supplies and other costs

Overview of Budgets

The authority adopts annual operating budgets for all programs. The budget for Low Rent Public Housing and Turnkey III Homeownership is adopted on the basis of accounting prescribed by the U. S. Department of Housing and Urban Development, which differs in some respect from generally accepted accounting principles. The Section 8 Voucher Program budget is approved by HUD's Section 8 Financial Management Center.

**Low Rent Public Housing
Budgetary Highlights**

Results of Operations

Management prepared a budget that anticipated a loss (before depreciation, accrued compensated absences and net principal payment on debt) of \$82,699. Actual results of operation reflected a loss of \$31,454.

Tenant Rental Revenues were \$68,705 or 16% higher than budgeted. This variance can be mainly attributed to higher rents charged as a result of greater need for assisted housing and the successful efforts of management to maintain an average occupancy rate of 98.8%.

Other Revenues were over the budget amount by \$59,947. The increase in revenue primarily resulted from other grants, which were higher than initially estimated.

Operating Expenditures were over budgeted with an overage of \$59,964 or 5% variance in the bottom line. In administration the difference maintained because of other expenses.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

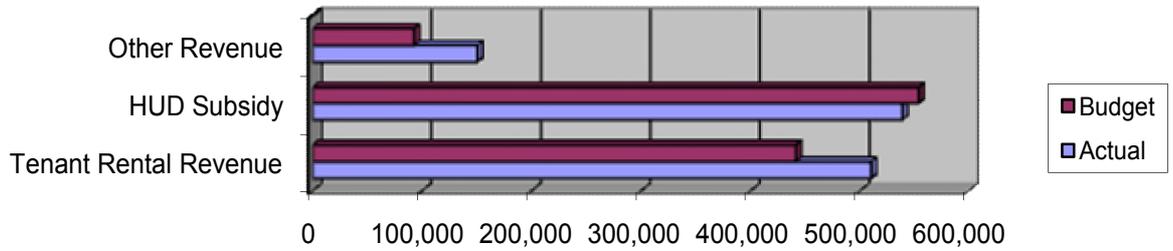
The following tables and graphs illustrate the Authority's effectiveness at estimating revenues and spending within budgeted parameters.

Comparison Budget vs. Actual – Low Rent Public Housing

	Budget	Actual	Variance	Percent Change
Tenant Revenue	441,406	510,111	-68,705	-14%
HUD Subsidy	553,539	538,469	15,070	3%
Other Revenue	92,669	150,243	-57,574	-38%
Total Operating Revenue	1,087,614	1,198,823	-111,209	-9%
Administrative	363,255	373,625	-10,370	-3%
Tenant Services	6,000	5,378	622	12%
Utilities	330,912	346,556	-15,644	-5%
Maintenance	366,552	430,882	-64,330	-15%
Other Operating Expenses	94,594	64,693	29,901	46%
Extraordinary Maintenance	9,000	7,978	1,022	13%
Casualty Losses	0	1,165	-1,165	-100%
Total Operating Expenses	1,170,313	1,230,277	-59,964	-5%
Net Income/(Loss) before Depreciation	-82,699	-31,454	-51,245	65%

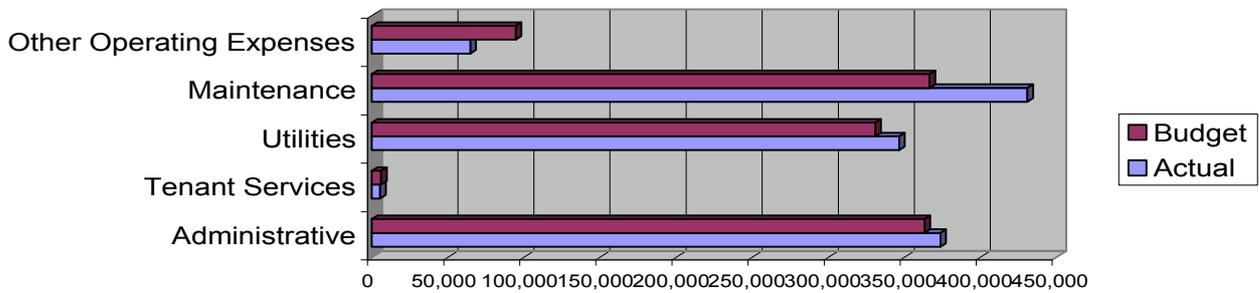
**HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008**

Low Rent Public Housing
Budget vs. Actual Income



	Tenant Rent Revenue	HUD Subsidy	Other Revenue
Actual	510,111	538,469	150,243
Budget	441,406	553,539	92,669

Low Rent Public Housing
Budget vs. Actual Expenditures



	Administrative	Tenant Services	Utilities	Maintenance	Other Operating Expenses
Actual	373,625	5,378	346,556	430,882	64,693
Budget	363,255	6,000	330,912	366,552	94,594

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008

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Section 8 Voucher Program Budgetary Background

The Section 8 administrative budget is determined by estimating the total dollars available under the Annual Contributions Contract with the U.S. Department of Housing and Urban Development to administer the program for the period. Annual Contributions available from HUD include funding for Housing Assistance Payments (HAP) to landlords and administrative, hard to house and audit fees earned by the Authority.

During the Authority's fiscal year, HUD's method of funding for the Section 8 Voucher Program changed.

Section 8 Program Budgetary Highlights

The Authority received \$125,188 in Admin Fees, as illustrated in the table below. The Authority experienced an operating decrease of \$46,973 (before depreciation and accrued compensated absences).

Annual Contributions Required – Revenues

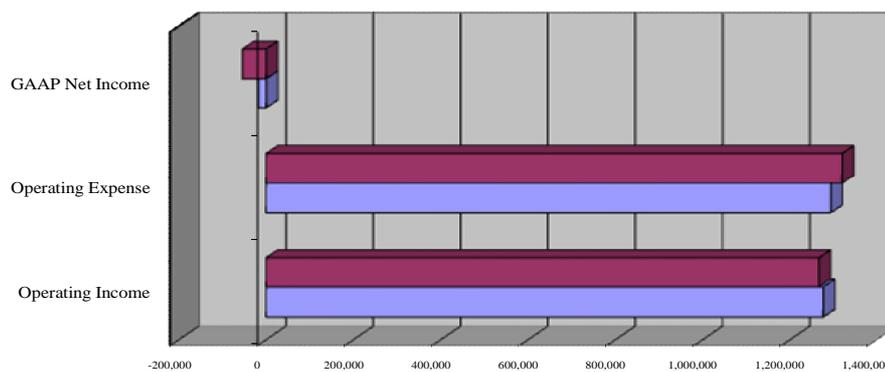
Housing Assistance Payments fell below expectations by \$9,943. This result suggests that the Authority leased almost the same number of units each month that was budgeted, when in fact; the amount of funds available from HUD was less than originally expected. Although there was the uncertainty and subsequent insufficient funding provided by HUD, the Authority was able to maintain a 98% lease up rate.

The following tables and graphs illustrate the Authority's effectiveness at estimating revenues within foreseeable parameters.

**HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2008**

Comparison Budget vs. Actual – Section 8 Housing Choice Voucher Program

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Change</u>
HUDA. C. Earned	1,148,315	1,095,796	52,519	5%
Admin Fees Received	127,590	126,041	1,549	1%
Interest Operating Reserve	0	3,427	(3,427)	-100%
Interest Income G. F.	0	5,311	(5,311)	-100%
Portable Admin Fees Earned	0	3,419	(3,419)	-100%
FSS Grants	0	32,500	(32,500)	-100%
Total Operating Reserve	<u>1,275,905</u>	<u>1,266,494</u>	<u>9,403</u>	<u>1%</u>
Routine Expenses	124,603	157,300	(32,697)	0%
Housing Assistance Payments	1,154,092	1,144,149	9,943	0%
Depreciation	0	4,223	(4,223)	0%
Other Operating Expenses	15,000	13,758	1,242	1%
Total Operating Expenses	<u>1,293,695</u>	<u>1,319,430</u>	<u>(25,735)</u>	<u>-2%</u>
Net Income/(Loss) before Depreciation	<u>(17,790)</u>	<u>(52,936)</u>	<u>35,146</u>	<u>65%</u>



	Operating Income	Operating Expense	GAAP Net Income
■ Actual	1,266,494	1,319,430	(53,789)
■ Budget	1,275,905	1,293,695	(17,790)

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2008**

ASSETS

CURRENT ASSETS

Cash	\$ 1,048,539
Accounts receivable	983,937
Accrued interest receivable	753
Notes receivable	21
Investments	109,877
Inventory	19,352
Deferred charges	<u>24,271</u>

Total Current Assets \$ 2,186,750

RESTRICTED ASSETS

Cash	<u>\$ 175,473</u>
------	-------------------

Total Restricted Assets \$ 175,473

CAPITAL ASSETS

Land, buildings and equipment	\$ 16,611,436
Less: Accumulated depreciation	<u>-12,800,353</u>

Net Capital Assets \$ 3,811,083

Total Assets \$ 6,173,306

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 250,478
Accrued liabilities	35,264
Trust and deposit liabilities	17,689
Deferred revenues	<u>1,315</u>

Total Current Liabilities \$ 304,746

NONCURRENT LIABILITIES

Accrued liabilities	\$ 35,350
FSS escrow	<u>17,999</u>

Total Noncurrent Liabilities \$ 53,349

NET ASSETS

Invested in capital assets	\$ 3,811,083
Restricted	177,474
Unrestricted	<u>1,826,654</u>

Total Net Assets \$ 5,815,211

The notes to financial statements are an integral part of this statement.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN ASSETS -
PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

Operating Income

Tenant rental revenue	\$ 638,147
Total Rental Income	\$ 638,147
HUD grants - operating	1,886,736
Other governmental grants	44,574
Fraud recovery	2,746
Other revenue	93,965
Gain (loss) on sale of fixed assets	<u>13,158</u>
Total Operating Income	<u>\$ 2,682,072</u>

Operating Expenses

Administration	\$ 590,811
Tenant services	12,755
Utilities	347,573
Ordinary maintenance and operation	451,219
Protective services	30,857
General expense	82,040
Extraordinary maintenance	7,978
Housing assistance payments	1,144,149
Depreciation	<u>519,185</u>
Total Operating Expenses	<u>\$ 3,186,567</u>
Net Operating Income (Loss)	<u>\$ -507,241</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 347,828
Interest income	24,976
Casualty losses	<u>-1,165</u>
Total Nonoperating Income	<u>\$ 371,639</u>
Changes in net assets	\$ -135,602
Net assets, beginning of year	4,588,708
Prior period adjustments	<u>1,362,105</u>
Net assets, end of year	<u><u>\$ 5,815,211</u></u>

The notes to financial statements are an integral part of this statement.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

Operating Activities

Operating grants	\$ 1,945,928
Dwelling rental	652,063
Other revenue	112,615
Housing assistance payments	-1,144,149
Payments to employees	-533,578
Payments to suppliers and contractors	<u>-103,895</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 928,984</u>

Investing Activities

Investments (purchased) redeemed	\$ 527,994
Interest income	<u>25,383</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 553,377</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 347,828
(Additions) deletions to fixed assets	-1,275,915
Casualty losses	<u>-1,165</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -929,252</u>

Net Change in Cash	\$ 553,109
Cash Balance at September 30, 2007	<u>670,903</u>
Cash Balance at September 30, 2008	<u><u>\$ 1,224,012</u></u>

The notes to financial statements are an integral part of this statement.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities

Net operating income (loss)	\$ -507,241
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Adjustment to net assets	1,362,105
Depreciation	519,185
(Increase) decrease in accounts receivable	-637,349
(Increase) decrease in deferred charges	9,270
(Increase) decrease in other assets	-771
Increase (decrease) in accounts payable	163,420
Increase (decrease) in accrued liabilities	6,485
Increase (decrease) in deferred revenues	88
Increase (decrease) in other liabilities	<u>13,792</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 928,984</u>

The notes to financial statements are an integral part of this statement.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

The Michigan City Housing Authority was established by the City of Michigan City pursuant to the laws of the State of Indiana, to transact business and to have powers as defined therein. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

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

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Michigan City and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Michigan City Housing Authority is a separate reporting entity. The Housing Authority has no component units in the current year.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(b) Michigan City Housing Development, Inc. -

The Michigan City Housing Development, Inc. was established by the Michigan City Housing Authority as a not-for-profit corporation.

The general purpose of this corporation is to advocate for and provide affordable housing, whether by rental or sale to individuals and families of low to moderate income pursuant to economic guidelines established by the United States Department of Housing and Urban Development. Educational services shall be provided prospective members of such identifiable groups for the purposes of teaching the principles of a home purchase and ownership to include asset management, home loan financing, income budgeting, home inspection and maintenance and such topics as deemed necessary to ensure initial and continued home ownership or home rental and such other lawful activity as granted by statute to a not-for-profit corporation pursuant to *Indiana Code § 23-17-4-1(a)*. Such corporation is organized exclusively for charitable and educational purposes and is governed by a separate Board of Directors.

During the prior fiscal year, all of the assets and related liabilities owned and operated as a separate not-for-profit entity, Michigan City Housing Development, Inc. were removed from the financial statements of the Housing Authority. However, during the current fiscal year several properties were transferred back to the Housing Authority per instruction from the Department of Housing and Urban Development.

(c) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

(d) Financial Statement Presentation

Although no formal policy has been adopted, in the course of financial statement preparation, the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are tenant rents and HUD grants. Operating expenses include administration, maintenance, insurance, depreciation, utilities, housing assistance payments and other general expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(e) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- * Low Rent Public Housing
- * Housing Choice Vouchers
- * ROSS
- * Capital Fund Program
- * Business Activities
- * State and Local

These programs are all accounted for within the 'Proprietary' (enterprise) fund as described below:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(f) Cash and Cash Equivalents -

The Housing Authority has not adopted a formal policy regarding cash equivalents, but for purposes of the statement of cash flows presentation, the Housing Authority considers all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of one month or less when purchased to be cash equivalents.

(g) Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. These receivables and payables are classified as "due from other programs" or "due to other programs" on the combining statement of net assets and have been eliminated in the basic financial statements.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at September 30, 2008, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(i) Inventories and Materials -

Inventories and materials are stated at cost which approximates market determined on a first-in, first-out basis.

(j) Investments -

Investments are stated at cost which approximates market.

(k) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

If the initial cost of a piece of equipment and/or other personal property is five hundred dollars (\$500) or more and the anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

- 1) The total development construction costs incurred for each project at the end of the initial operating period,
- 2) nonexpendable equipment, and
- 3) property betterments and additions
- 4) land acquisitions.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(k) Fixed Assets - (continued)

These are recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Buildings	40	years
Equipment	3-7	years
Leasehold improvements	10-20	years

(l) Income Tax -

The Authority, organized as a non-profit corporation subsidized by the Federal government, is exempt from Federal and State income taxes.

(m) Annual Contributions/Subsidies and Other Grants

Annual contributions and subsidies received from the Department of HUD are recorded as grant revenues.

Other grants (such as CFP grants) are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(n) The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted to the Board for approval.

(o) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

Statutes authorize the Housing Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities.

All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk

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

Credit Risk Investments, Concentration of Credit Risk and Interest Rate Risks - Investments

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

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

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

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 - Deposits which are not collateralized or insured.

Based on the three levels of risk, all of the Housing Authority's funds are classified as Category 1.

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 1,011,963	\$ 1,021,963
Voucher	<u>212,049</u>	<u>214,286</u>
Total	<u>\$ 1,224,012</u>	<u>\$ 1,236,249</u>

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.

Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

Based on the three levels of risk, all of the Housing Authority's investments are classified as Category 1.

<u>Program</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 2,000	\$ 2,000
Voucher	<u>107,877</u>	<u>107,877</u>
Total	<u>\$ 109,877</u>	<u>\$ 109,877</u>

Note 3 - Compensated Absences

All full time employees shall receive a paid vacation. Paid vacations will be granted to employees according to years of service. Vacation time may not be accumulated from one year to the next, and must be used within twelve (12) months after vesting. Employees will be paid at termination of employment for accumulated vacation credits, except under certain conditions.

Sick leave will accrue at the rate of one day per month or twelve days per year from the date non-probational status and may accumulate up to a maximum of sixty (60) days.

Note 4 - Defined Contribution Plan

The Housing Authority provides a pension plan for eligible full time employees. The Authority's contribution to the plan is a percent of each employee's annual compensation, and the Authority accounts for pension cost as incurred. Pension contributions totaled \$33,063 for the year ended September 30, 2008.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 6,845
Accounts receivable - HUD	267,674
Accounts receivable - other	<u>709,418</u>
Subtotal	\$ 983,937
Interfund	<u>43,092</u>
Total	<u>\$ 1,027,029</u>

Note 6 - Investments

At September 30, 2008 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposit	2.0%	\$ 2,000	\$ 2,000
<u>Voucher</u>			
Certificate of deposit	2.47%	<u>107,877</u>	<u>107,877</u>
Total		<u>\$ 109,877</u>	<u>\$ 109,877</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 19,324
Other	<u>4,947</u>
Total	<u>\$ 24,271</u>

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 8 - Fixed Assets

Balance as of September 30, 2008	\$ 3,811,083
Balance as of September 30, 2007	<u>3,054,353</u>
Net Increase (Decrease)	<u>\$ 756,730</u>

Reconciliation

Property betterments and additions	\$ 447,071
Transfer from MCHDI	831,632
Loss from disposal of non-expendable property	-2,788
Current year depreciation expense	<u>-519,18</u> *
Net Increase (Decrease)	<u>\$ 756,730</u>

<u>Analysis</u>	10/01/2007 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	09/30/2008 <u>Balance</u>
Land	\$ 367,457	\$ 50,154	\$ 0	\$ 417,611
Buildings	13,135,297	1,436,531	0	14,571,828
Equipment and furniture	779,176	58,530	179,139	658,567
Leasehold improvements	951,820	0	0	951,820
Construction in progress	<u>52,710</u>	<u>0</u>	<u>41,100</u>	<u>11,610</u>
Total	\$ 15,286,460	\$ 1,545,215	\$ 220,239	\$ 16,611,436
Accumulated depreciation	<u>-12,232,107</u>	<u>176,350</u>	<u>744,596</u>	<u>-12,800,353</u>
Total	<u>\$ 3,054,353</u>	<u>\$ 1,721,565</u>	<u>\$ 964,835</u>	<u>\$ 3,811,083</u>

* Current year depreciation expense recognized.

Note 9 - Notes Receivable

This classification includes the following accounts:

Mortgage receivable	<u>\$ 21</u>
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**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 10 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 54,101
Tenants security deposits	44,805
Payroll withholding	5,200
Accounts payable - HUD	2,800
Accounts payable - other	<u>143,572</u>
Subtotal	\$ 250,478
Interfund	<u>43,092</u>
Total	<u><u>\$ 293,570</u></u>

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

<u>Current Portion:</u>	
Accrued salaries/wages	\$ 16,520
Accrued payroll taxes	1,235
Accrued compensated absences	<u>17,509</u>
Total Current	\$ 35,264
<u>Noncurrent Portion:</u>	
Accrued compensated absences	<u>35,350</u>
Total	<u><u>\$ 70,614</u></u>

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

Homebuyers ownership reserve	\$ 16,731
Homebuyers nonroutine maintenance reserve	625
Investment income - Homebuyers ownership reserve - unapplied	<u>333</u>
Total	<u><u>\$ 17,689</u></u>

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 13 - Summary of Long Term Liabilities

A summary of long term liabilities as of September 30, 2008:

	10/01/2007			09/30/2008
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Accrued compensated absences	\$ 32,026	\$ 3,324	\$ 0	\$ 35,350
FSS escrow	<u>0</u>	<u>17,999</u>	<u>0</u>	<u>17,999</u>
 Total	 <u>\$ 32,026</u>	 <u>\$ 21,323</u>	 <u>\$ 0</u>	 <u>\$ 53,349</u>

Note 14 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	<u>\$ 1,315</u>
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Note 15 - Long Term Debt

On August 4, 1987, the U.S. Department of Housing and Urban Development (HUD) issued notice PIH 87-212 to implement the provisions of the Housing and Community Development Reconciliation Amendments of 1985 (PL 99-272, enacted April 7, 1986). This notice states, in part, the following:

Project debt to HUD (HUD-held notes) will be forgiven after a debt forgiveness amendment to the consolidated Annual Contributions Contract has been executed by HUD and the Public Housing Authority and after the Actual Development Cost Certificate has been included in an audit and approved.

As a part of the HUD mandated GAAP conversion at September 30, 1999 and the above referenced notice, all HUD-held notes were recorded as debt forgiveness during a prior fiscal year.

Note 16 - Administrative Fee

The PHA receives an "Administrative Fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the HAP Program. The fee is set by HUD on a calendar year basis.

Note 17 - Allocation of Costs

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

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(CONTINUED)**

Note 18 - Contingencies

Federal Grants

In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by agents of HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Note 19 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Transfer from MCHDI (see Note 16)	\$ 1,364,478
Adjustment to FSS subsidy	<u>-2,373</u>
	<u>\$ 1,362,105</u>

Note 20 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation.

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

Note 21 - Economic Dependency

The Housing Authority received most of its revenue (73%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850a	C-933	FYE 09/30/08	\$ <u>538,469</u>	\$ <u>538,469</u>	\$ <u>538,469</u>
Public Housing - Capital Fund*	14.872	C-933	FYE 09/30/08	\$ <u>1,170,982</u>	\$ <u>435,234</u>	\$ <u>435,234</u>
Housing Choice Voucher Program*	14.871	C-2057V	FYE 09/30/08	\$ <u>1,253,484</u>	\$ <u>1,253,484</u>	\$ <u>1,253,484</u>
ROSS Grant	14.870	C-2057V	FYE 09/30/08	\$ <u>7,377</u>	\$ <u>7,377</u>	\$ <u>7,377</u>
<u>Flow Through from Local Sources</u>						
Community Development Block Grants/Entitlement Grants	14.218	C-2057V	FYE 09/30/08	\$ <u>41,224</u>	\$ <u>41,224</u>	\$ <u>41,224</u>
Total Housing Assistance				\$ <u>3,011,536</u>	\$ <u>2,275,788</u>	\$ <u>2,275,788</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED SEPTEMBER 30, 2008**

Note 1: Expenditures to the Housing Choice Voucher Program are reported as equal to revenues recognized. This method of expenditure recognition does not reconcile to the Housing Authority's financial statements, but is required by HUD.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P019501-06**

1. The Actual Modernization Costs of Phase IN36P019501-06 are as follows:

Funds approved	\$	259,757
Funds expended		<u>259,757</u>
Excess of Funds Approved	\$	<u> 0</u>
Funds advanced		
Project notes, non-HUD	\$	259,757
Funds expended		<u>259,757</u>
Excess of Funds Advanced	\$	<u> 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, date August 19, 2008, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P019501-07**

1. The Actual Modernization Costs of Phase IN36P019501-07 are as follows:

Funds approved	\$	266,414
Funds expended		<u>266,414</u>
Excess of Funds Approved	\$	<u> 0</u>
Funds advanced		
Project notes, non-HUD	\$	266,414
Funds expended		<u>266,414</u>
Excess of Funds Advanced	\$	<u> 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, date September 14, 2008, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD
DECATUR, ILLINOIS 62526
(217) 872-1908

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
Michigan City Housing Authority
Michigan City, Indiana

I have audited the financial statements of the governmental activities of Michigan City Housing Authority as of and for the year ended September 30, 2008, which collectively comprise the Michigan City Housing Authority's basic financial statements and have issued my report thereon dated February 22, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employee, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Michigan City Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Michigan City Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Michigan City Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Michigan City Housing Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Compliance and Other Matters

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

I noted certain matters that we reported to management of Michigan City Housing Authority, in a separate letter dated March 6, 2009.

This reported in intended solely for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Pamela J. Simpson in black ink.

Decatur, Illinois
March 6, 2009

Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Commissioners
Michigan City Housing Authority
Michigan City, Indiana

Compliance

I have audited the compliance of Michigan City Housing Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Michigan City Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Michigan City Housing Authority's management. My responsibility is to express an opinion on Michigan City Housing Authority's compliance based on my audit.

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

In my opinion, Michigan City Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

The management of Michigan City Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Michigan City Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Michigan City Housing Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

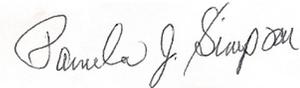
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Michigan City Housing Authority in a separate letter dated March 6, 2009.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
March 6, 2009



Certified Public Accountant

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended September 30, 2007 contained no findings.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Section I - Summary of Auditor's Results

Low Risk Auditee _____ yes X no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes X no

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

Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X no

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

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Major Programs: (Threshold \$300,000)

CFDA Number(s)

Public and Indian Housing	14.850
Housing Choice Voucher Program	14.871
Capital Funds Program	14.872

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

CURRENT FINDINGS AND RECOMMENDATIONS

Section II - Financial Statement Findings

There were no audit findings discussed with Lenda J. Wilson, Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held March 6, 2009.

Section III - Federal Award Findings

There were no audit findings discussed with Lenda J. Wilson, Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held March 6, 2009.

**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2008**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Accounts receivable - gov't grant	1135	\$ 20,633.68		1135
Work in process	1255		\$ 20,633.68	1255
(To reclassify work reimbursements for playground which will be paid through CDBG funds)				
(2)				
Prior year adjustments	6010	\$ 2,373.27		n/a
Accounts receivable - HUD	1125		\$ 2,373.27	n/a
(Adjustment made by fee accountant in 12/08 - already posted by them)				
<u>Voucher</u>				
(1)				
Other deferred credits	2290	\$ 1,947.00		2290
A/C received - admin	3412	853.00		2826.02
Accounts payable - HUD	2118		\$ 2,800.00	2118
(To adjust for 3 rd quarter calculation of excess admin fee)				

PAMELA J. SIMPSON, C.P.A.

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Board of Commissioners
Michigan City Housing Authority
Michigan City, Indiana

In planning and performing my audit of the financial statements of Michigan City Housing Authority as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan City Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Michigan City Housing Authority's internal control.

The administration of the Housing Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. However, my study and evaluation disclosed certain conditions in the following areas of which you should be aware in order to improve operating efficiencies and strengthen internal controls:

1. HUD regulations require the Housing Authority to obtain a fully executed form HUD 51999. During my review of current depositories, I noted that the housing authority did not have a current executed form from at least one financial institution holding agency funds. I recommend that the Authority execute new depository agreements with all new financial institutions and for any that have undergone ownership or name changes
2. While reviewing the Housing Authority's system of internal controls, it came to my attention that not all internal control procedures being followed have been included in the written policy/procedural manual.

In addition to the current policies/procedures, I suggest that the written manual be expanded to include: (a) the method used to allocate shared expenses, including the identification of the specific shared expenses (b) personal use of agency assets (such as automobiles, cell phone, etc)

(c) credit card use (full explanation of the purpose of travel, meals and meetings attached to supporting invoices) and (e) reconciliation of FSS escrow liability (subsidiary ledger to be maintained) to the offsetting investment

The written policies should also cover the extent that outside consultants are used to enhance internal controls. The policies should include the detail of level of responsibility the fee accountant is assuming in the preparation and review of the year end financial statements as compared to the level responsibility the housing is authority is maintaining. The written procedures should indicate who will prepare and maintain copies of year end schedules, journal entries and reconciliations. However the Housing Authority management should keep in mind that you have the ultimate responsibility for preparation of accurate and complete financial statements.

A more detailed written manual will aid in the training of new staff, assure management of consistency in policy application as well as accurate financial reporting. Expand internal controls for more specific procedures.

5. While reviewing the agency's SEMAP certification, the Housing could not provide written documentation to substantiate the results of participant files reviewed as a basis for data collection for the submission. This documentation needs to be retained as support for the certification.

This communication is intended solely for the information and used of management, the Board of Commissioners, and others within the housing authority, and is not intended to be and should not be used by anyone other than these specified parties. Please feel free to contact me if you have any questions.



Decatur, Illinois
March 6, 2009

Certified Public Accountant