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May 14, 2009

Board of Commissioners
Michigan City Housing Authority
621 East 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, 2003 to September 30, 2004. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Michigan City Housing Authority, as of September 30, 2004, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

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

TWELVE MONTHS ENDED SEPTEMBER 30, 2004

**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 basic financial statements of the Michigan City Housing Authority, as of and for the year ended September 30, 2004, as listed in the table of contents. These basic 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 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 basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan City Housing Authority, as of September 30, 2004 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.

As described in Note 1 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting of Nonexchange Transactions*, Statement No. 34, *Basic Financial Statements-and-Management's Discussion and Analysis-For State and Local Governments*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of September 30, 2004. This results in a change to the Authority's method of accounting for certain nonexchange revenues and a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 20, 2005, on my consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulation, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages 3 through 15 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 performed for the purpose of forming an opinion 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 basic financial statements of the 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 basic financial statements and, in my opinion, is fairly stated, in all materials respects, in relation to the basic financial statements taken as a whole.

Decatur, Illinois
May 20, 2005


Certified Public Accountant

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

3

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 decreased by \$177,414 (or 2%) during 2004. Since the Authority engages only in business-type activities, the increase is all the categories of business-type net assets. Net Assets were \$8.6 million and \$8.4 million for 2003 and 2004 respectively.
- ❖ The business-type activities revenue decreased by \$441,366 (or 10%) during 2004, and was \$4.3 million and \$3.8 million for 2003 and 2004 respectively.
- ❖ The total expenses of all Authority programs decreased by \$138,051 (or 3%). Total expenses were \$4.2 million and \$4.0 million for 2003 and 2004 respectively.
- ❖ The Authority had \$675,482 in Tenant Revenue, \$2,352,052 in HUD PHA Operating Grants and \$713,631 of HUD Capital Grants for the year ended September 30, 2004.
- ❖ Authority investments increased by \$11,575 (or 1%) during the year. Total investments on September 30, 2004 were \$1,074,500.

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, 2004.

❖ **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.

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.

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 made "mortgage" payments based on their income and maintained 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.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

Section 8 New Construction – The rents of some residential units are subsidized by HUD under the Section 8 New Construction (“New Construction”) Program. All such assistance is “project based”, i.e.; the subsidy is committed by HUD for the assisted units of a particular Mortgaged Property for a contractually determined period. New Construction provides rental assistance in connection with the development of newly constructed privately owned rental housing financed with any type of construction or permanent financing, including the applicable FHA Multifamily Mortgage Insurance Programs. The maximum term of assistance provided by HUD under New Construction for a project financed with the proceeds of a loan insured by FHA is 20 years.

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

	2004 (Millions of dollars)	2003 (Millions of dollars)
Current and Other Assets	\$ 2.5	\$ 2.5
Capital Assets	<u>6.8</u>	<u>6.7</u>
Total Assets	<u>\$ 9.3</u>	<u>\$ 9.2</u>
Other Liabilities	\$ 0.9	\$ 0.6
Long-Term Liabilities	<u>0.0</u>	<u>0.0</u>
Total Liabilities	<u>\$ 0.9</u>	<u>\$ 0.6</u>
Invested in Capital Assets, Net of Related Debt	\$ 6.1	\$ 6.4
Unrestricted	<u>2.3</u>	<u>2.2</u>
Total Net Assets	<u><u>\$ 8.4</u></u>	<u><u>\$ 8.6</u></u>

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
 Year Ending September 30, 2004

Major Factors Affecting the Statement of Net Assets

Current assets remained even during the year and other liabilities increased (0.3). Current assets (primarily cash and investments) remained even due to receivables and the availability of excess operating revenues for investment.

Capital assets changed moderately, decreasing from \$6.7 million to \$6.8 million. The \$0.1 million increase is primarily attributable to the completion of major capital improvements under the Authority's Capital Fund program, less current year depreciation and amortization. For more detail see "Capital Assets and Debt Administration" below.

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

	<u>Millions of dollars</u>
Unrestricted Net Assets 09/30/04	\$ 2.2
Results of Operations	.9
Adjustments:	
Depreciation (1)	1.0
Adjusted Results from Operations	.1
Capital Expenditures	<u>0</u>
Unrestricted Net Assets 09/30/04	<u>\$ 2.3</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.

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.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

TABLE 3

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	2004	2003
	(Thousand of dollars)	(Thousand of dollars)
<u>Revenues</u>		
Tenant Revenue – Rents and Other	\$675	\$684
Operating Subsidies and Grants	2,411	2,808
Capital Grants	714	159
Investment Income	10	15
Other Revenues	25	611
Total Revenue	<u>\$3,835</u>	<u>\$4,277</u>
<u>Expenses</u>		
Administrative	\$563	\$590
Tenant Services	32	15
Utilities	240	241
Maintenance	553	525
Protective Services	0	69
General	230	148
Housing Assistance Payments	1,401	1,578
Depreciation	990	981
Total Expenses	<u>\$4,009</u>	<u>\$4,147</u>
Net Decrease	<u>\$ -174</u>	<u>\$ 130</u>

Major Factors Affecting the Change in Net Assets

Tenant revenue decreased. This decrease was primarily due to the phase out of specific earned income deductions for public housing residents 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 HUD funding cuts of over \$0.4 million during the period, Capital Grant funding of high end capital improvements increased by \$0.5 million resulting in entity wide revenue remaining unchanged.

Total expenses decreased by \$0.1 million. This decrease was primarily due to the elimination of funding, and thus expenditures, for the Public Housing Drug Elimination Program and to insufficient funding to support full lease up of base line units in our Section 8 Housing Choice Voucher Program.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

CAPITAL ASSETS AT YEAR END (NET OF DEPRECIATION)

As of year-end, the Authority had \$6.8 million invested in a variety of capital assets as reflected in the following table, which represents a net decrease (additions, deductions and depreciation) of \$.1 million from the prior year-end.

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

	<u>Business-Type Activities</u>	
	<u>2004</u>	<u>2003</u>
Land and land rights	\$436,306	\$ 436,306
Buildings	14,851,542	13,744,864
Equipment-Administrative	570,423	562,969
Equipment-Dwelling	190,025	183,913
Accumulated Depreciation	(10,243,734)	(9,305,061)
Construction in Progress	46,596	113,780
Leasehold improvements	<u>915,991</u>	<u>914,740</u>
Total	<u>\$ 6,767,149</u>	<u>\$6,702,948</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	\$ 6,702,948
Additions	1,114,708
Retirements	(60,397)
Depreciation	<u>(990,110)</u>
Total	<u>\$ 6,767,149</u>

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

Capital Improvements	\$ 1,101,142
Equipment Purchases	\$ 13,566

Debt Outstanding

As of year-end, the Authority had \$637,147 in debt (mortgages, notes, etc.) outstanding compared to \$312,695 the prior year, a \$324,452 increase (principal payments). Line of credit was increased.

TABLE 6
OUTSTANDING DEBT, AT YEAR-END

<u>Business Type</u>	Totals	
	<u>2004</u>	<u>2003</u>
Line of credit	\$ <u>637,147</u>	\$ <u>312,695</u>
Total	\$ <u>637,147</u>	\$ <u>312,695</u>

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 respects from generally accepted accounting principles. The Section 8 Voucher Program budget is approved by HUD's Section 8 Financial Management Center.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

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 \$82,777. Actual results of operation reflected a profit of \$1,279.

Tenant Rental Revenues were \$6,277 or 1% lower than budgeted. This variance can be mainly attributed to lower rents charged as a result of higher resident income and the successful efforts of management to maintain an average occupancy rate of 98.8%.

Other Revenues were under budget by \$27,434. The decrease in revenue primarily resulted from interest earnings on investments realizing a lower rate than initially estimated.

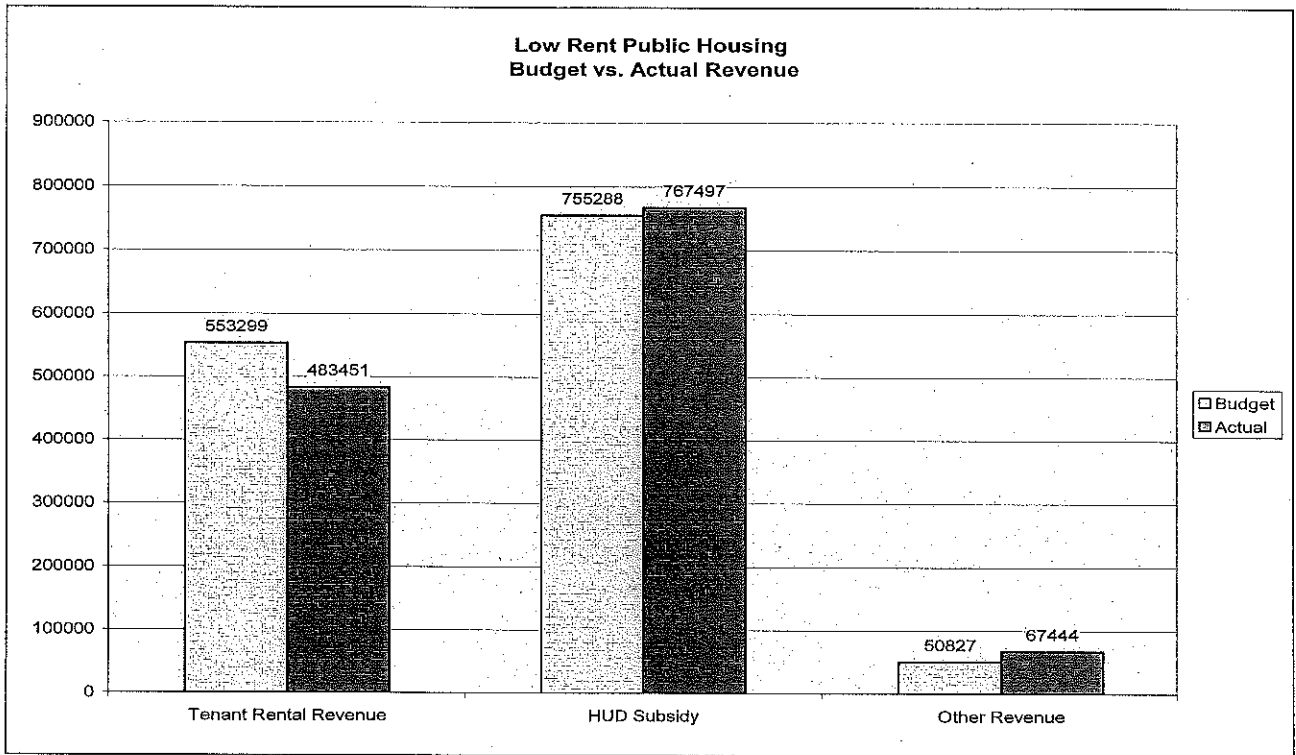
Operating Expenditures were well budgeted and controlled with only a \$31,952 or 3% variance in the bottom line.

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

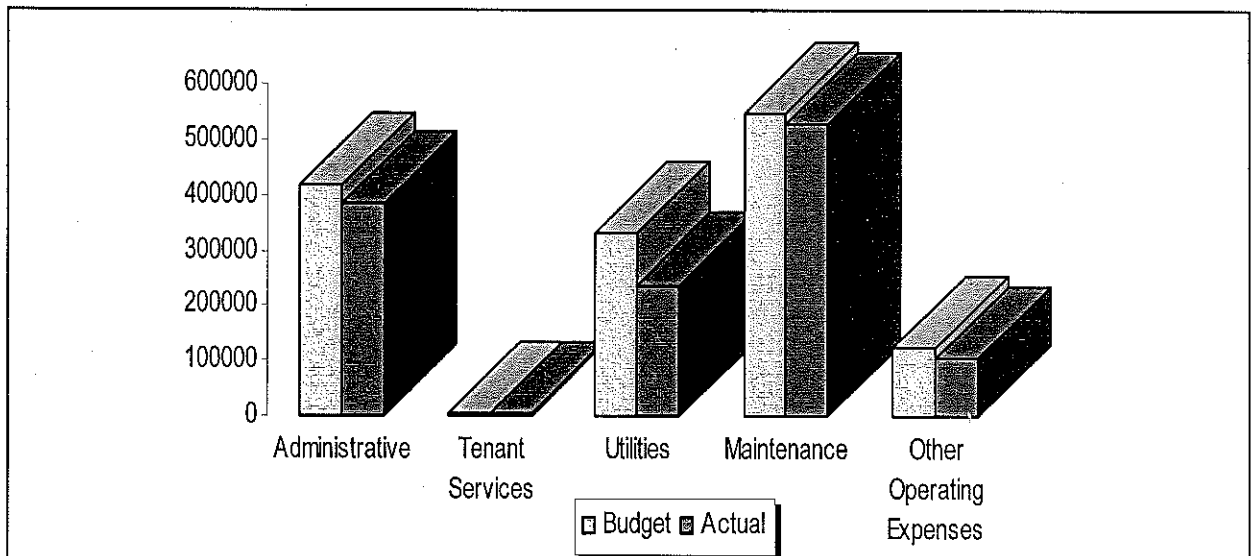
Comparison Budget vs. Actual – Low Rent Public Housing

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tenant Rental Revenue	487,795	481,518	(6,277)
HUD Subsidy	605,569	755,288	149,719
Other Revenue	50,077	22,643	(27,434)
Total Operating Revenue	1,143,441	1,259,449	116,008
Operating Expense			
Administrative	353,303	379,665	(26,362)
Tenant Services	6,000	4,432	1,568
Utilities	329,428	237,346	92,082
Maintenance	442,730	528,729	(85,999)
Other Operating Expenses	94,757	107,998	(13,241)
Total Operating Expenses	1,226,218	1,258,170	(31,952)
Budget vs. Actual Profit (Loss)	(82,777)	1,279	84,056

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
 Year Ending September 30, 2004

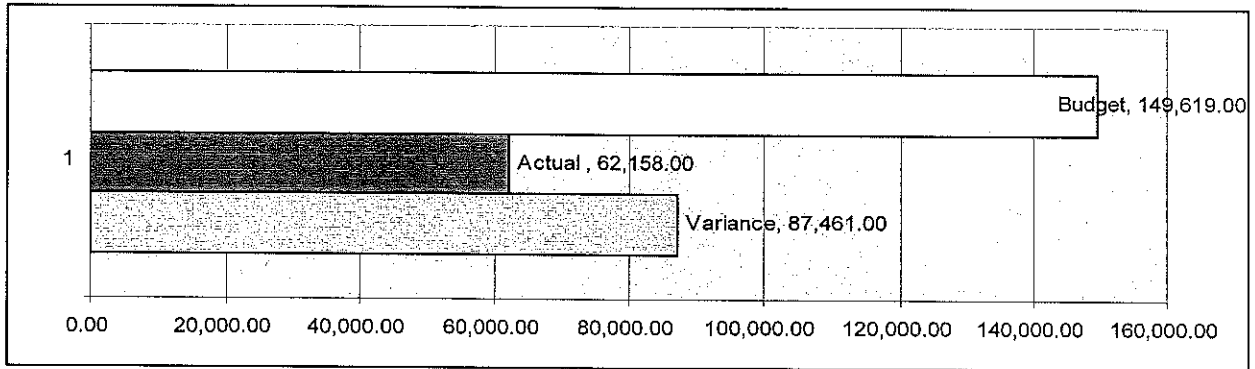


**Low Rent Public Housing
Budget vs. Actual Expenditures**



HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
 Year Ending September 30, 2004

Low Rent Public Housing
 Budget vs. Actual Profit (Loss)



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 originally budgeted for a \$4,560 increase to administrative fee reserves. As illustrated in the table below, the Authority actually experienced an operating deficit of \$-32,799 (before depreciation and accrued compensated absences).

Annual Contributions Required – Revenues

Housing Assistance Payments rose above expectations by \$73,425. This result suggests that the Authority leased more units each month than was budgeted, when in fact, the amount of funds available from HUD was less than originally expected. Due to the uncertainty and subsequent insufficient funding provided by HUD, the Authority was able to maintain a 98% occupancy rate.

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

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2004

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
HUD subsidy – HAP	\$ 1,056,565	\$ 1,129,990	\$ 73,425
HUD subsidy- Fees	118,969	100,688	(18,281)
Other revenue	<u>2,700</u>	<u>5,369</u>	<u>2,661</u>
 Total Operating Revenue	 \$ 1,178,234	 \$ 1,236,039	 \$ 57,805
 Operating Expenses:			
Housing Assistance Payments	\$ 1,056,565	\$ 1,129,990	\$ (73,425)
Administrative	114,609	120,620	(6,011)
Other Operating Expenses	<u>2,500</u>	<u>18,228</u>	<u>(15,728)</u>
 Total Operating Expenses	 \$ 1,173,674	 \$ 1,268,838	 \$ (95,164)
 Budget vs. Actual Income (Loss)	 <u>\$ 4,560</u>	 <u>\$ (32,799)</u>	 <u>\$ (37,359)</u>

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 of the Financial Manager:

The Housing Authority of the City
Of Michigan City, Indiana
621 East Michigan Boulevard
Michigan City, Indiana 46360
(219) 872-7287
mcha@emcha.org
fax: (219) 873-7700

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

**COMBINED STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2004**

<u>ASSETS</u>	<u>Proprietary Funds</u>
CURRENT ASSETS	
Cash	\$ 824,585
Accounts receivable (interfund eliminated)	444,417
Accrued interest receivable	10
Notes receivable	10,258
Investments	1,074,500
Inventory	24,579
Deferred charges	<u>125,085</u>
Total Current Assets	<u>\$ 2,503,434</u>
CAPITAL ASSETS	
Land, buildings and equipment	\$ 17,010,883
Less: Accumulated depreciation	<u>-10,243,734</u>
Net Capital Assets	<u>\$ 6,767,149</u>
Total Assets	<u>\$ 9,270,583</u>
 <u>LIABILITIES AND EQUITY</u>	
CURRENT LIABILITIES	
Accounts payable (interfund eliminated)	\$ 106,865
Notes payable	637,147
Accrued liabilities	35,556
Trust and deposit liabilities	54,951
Deferred credits	<u>19,896</u>
Total Current Liabilities	<u>\$ 854,415</u>
NONCURRENT LIABILITIES	
Accrued liabilities	<u>\$ 29,593</u>
Total Noncurrent Liabilities	<u>\$ 29,593</u>
 <u>NET ASSETS</u>	
Unrestricted	\$ 2,256,573
Invested in capital assets	<u>6,130,002</u>
Total Net Assets	<u>\$ 8,386,575</u>

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

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

**COMBINED STATEMENT OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Income</u>	<u>Proprietary Funds</u>	
	<u>Actual</u>	<u>Budget</u>
Dwelling rental	\$ 639,707	\$ 435,919
Excess utilities	35,625	51,876
Nondwelling rental	<u>150</u>	<u>0</u>
Total Rental Income	\$ 675,482	\$ 487,795
HUD grants - operating	2,352,052	2,286,293
Other grants	58,656	60,000
Loss on disposal of fixed assets	-86	0
Other income	25,343	50,100
Fraud recovery	<u>33</u>	<u>0</u>
Total Operating Income	<u>\$ 3,111,480</u>	<u>\$ 2,884,188</u>
 <u>Operating Expenses</u>		
Administration	\$ 562,648	\$ 689,607
Tenant services	31,995	6,000
Utilities	240,479	329,428
Ordinary maintenance and operation	553,189	442,730
General expense	157,182	97,407
Nonroutine maintenance	58,323	0
Depreciation	990,110	0
Housing assistance payments	<u>1,401,070</u>	<u>1,337,293</u>
Total Operating Expenses	<u>\$ 3,994,996</u>	<u>\$ 2,902,465</u>
Net Operating Income (Loss)	<u>\$ -883,516</u>	<u>\$ -18,277</u>
 <u>Nonoperating Income (Expense)</u>		
HUD grants - capital	\$ 713,631	\$ 1,178,782
Interest income	10,069	2,677
Interest expense	<u>-14,008</u>	<u>0</u>
Total Nonoperating Income	<u>\$ 709,692</u>	<u>\$ 1,181,459</u>
Changes in net assets	\$ -173,824	\$ 1,163,182
Net assets, beginning of year	8,563,989	8,563,989
Prior period adjustments	<u>-3,590</u>	<u>0</u>
Net assets, end of year	<u>\$ 8,386,575</u>	<u>\$ 9,727,171</u>

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

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

**COMBINED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Activities</u>	<u>Proprietary Funds</u>
Operating grants	\$ 2,231,496
Dwelling rental	687,813
Other revenue	25,290
Housing assistance payments	-1,401,070
Payments to employees	-313,674
Payments to suppliers and contractors	<u>-1,177,666</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 52,189</u>
 <u>Investing Activities</u>	
(Additions) deletions to fixed assets	\$ -1,114,708
Sale of fixed assets	60,397
Investments (purchased) redeemed	-11,575
Interest income	<u>10,069</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -1,055,817</u>
 <u>Financing Activities</u>	
HUD grants - capital	\$ 713,631
Interest expense	-14,008
Retirement of debt	<u>324,452</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 1,024,075</u>
Net Change in Cash	\$ 20,447
Cash Balance at September 30, 2003	<u>804,138</u>
Cash Balance at September 30, 2004	<u>\$ 824,585</u>

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

**COMBINED STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>Proprietary Funds</u>
Net operating income (loss)	\$ -883,516
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	990,110
Adjustments to net assets	-3,591
(Increase) decrease in accounts receivable	154,359
(Increase) decrease in deferred charges	166,652
(Increase) decrease in other assets	-10,162
Increase (decrease) in accounts payable	-369,051
Increase (decrease) in accrued liabilities	-5,509
Increase (decrease) in deferred revenues	16,327
Increase (decrease) in other liabilities	<u>-3,430</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 52,189</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

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. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Funds -

The programs of the Housing Authority are organized into funds, each of which is considered to be a separate reporting entity. The major fund categories are:

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.

(d) Cash and Cash Equivalents -

For purposes of the statement of cash flows, 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.

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at September 30, 2004, 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.

(f) Inventories and Materials -

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

(g) Investments -

Investments are stated at cost which approximates market.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) 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.

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(i) Income Tax -

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

(j) 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.

(k) The Housing Authority adopts a budget annually. The budget is submitted to the Department of Housing and Urban Development for approval. Subsequent budget revisions may also be required to be submitted to HUD for approval.

(l) 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, 2004
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 523,620	\$ 573,020
Voucher	108,727	112,626
Business Activities	<u>192,238</u>	<u>192,238</u>
Total	<u>\$ 824,585</u>	<u>\$ 877,884</u>

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>Fund</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 476,875	\$ 476,875
Business Activities	<u>597,625</u>	<u>597,625</u>
Total	<u>\$ 1,074,500</u>	<u>\$ 1,074,500</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

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 \$55,396 for the year ended September 30, 2004.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenants accounts receivable	\$ 29,505	\$ 0	\$ 0
Other	2,800	0	28,503
HUD	188,822	111,691	52,444
Allowance for doubtful accounts	<u>-18,435</u>	<u>0</u>	<u>0</u>
Subtotal	\$ 202,692	\$ 111,691	\$ 80,947
Interfund	<u>191,529</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 394,221</u>	<u>\$ 111,691</u>	<u>\$ 80,947</u>
	<u>New Construction</u>	<u>Business Activities</u>	<u>Total</u>
Tenants accounts receivable	\$ 0	\$ 1,097	\$ 30,602
Other	0	48,656	79,959
HUD	0	0	352,957
Allowance for doubtful accounts	<u>0</u>	<u>-666</u>	<u>-19,101</u>
Subtotal	\$ 0	\$ 49,087	\$ 444,417
Interfund	<u>61,629</u>	<u>0</u>	<u>253,158</u>
Total	<u>\$ 61,629</u>	<u>\$ 49,087</u>	<u>\$ 697,575</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 6 - Investments

At September 30, 2004 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Money market account	1.0%	\$ 474,875	\$ 474,875
Certificate of deposit	2.0%	<u>2,000</u>	<u>2,000</u>
 <u>Business Activities</u>			
Money market account	1.0%	<u>\$ 597,625</u>	<u>\$ 597,625</u>
Total		<u>\$ 1,074,500</u>	<u>\$ 1,074,500</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

	<u>Low Rent</u>	<u>Voucher</u>	<u>Business Activities</u>	<u>Total</u>
Prepaid insurance	\$ 16,795	\$ 3,328	\$ 1,315	\$ 21,438
Other	<u>12,764</u>	<u>0</u>	<u>90,883</u>	<u>103,647</u>
Total	<u>\$ 29,559</u>	<u>\$ 3,328</u>	<u>\$ 92,198</u>	<u>\$ 125,085</u>

Note 8 - Fixed Assets

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance as of September 30, 2004	\$ 3,711,325	\$ 831,590	\$ 34,111
Balance as of September 30, 2003	<u>4,293,958</u>	<u>436,784</u>	<u>41,976</u>
Net Increase (Decrease)	<u>\$ -582,633</u>	<u>\$ 394,806</u>	<u>\$ -7,865</u>
		<u>Business Activities</u>	<u>Total</u>
Balance as of September 30, 2004		\$ 2,190,123	\$ 6,767,149
Balance as of September 30, 2003		<u>1,930,230</u>	<u>6,702,948</u>
Net Increase (Decrease)		<u>\$ 259,893</u>	<u>\$ 64,201</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 8 - Fixed Assets (Continued)

<u>Reconciliation</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	
Property betterments and additions	\$ 19,252	\$ 713,631	\$ 312	
Loss from disposal of non-expendable property	0	0	0	
Capital Fund transfer in/out	312,107	-312,107	0	
Current year depreciation expense	<u>-913,992</u>	<u>-6,718</u>	<u>-8,177</u>	
Net Increase (Decrease)	<u>\$ -582,633</u>	<u>\$ 394,806</u>	<u>\$ -7,865</u>	
		<u>Business Activities</u>	<u>Total</u>	
Property betterments and additions		\$ 381,513	\$ 1,114,708	
Loss from disposal of non-expendable property		-60,397	-60,397	
Capital Fund transfer in/out		0	0	
Current year depreciation expense		<u>-61,223</u>	<u>-990,110</u>	
Net Increase (Decrease)		<u>\$ 259,893</u>	<u>\$ 64,201</u>	
<u>Analysis</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 436,306	\$ 0	\$ 0	\$ 436,306
Buildings	13,744,864	1,395,567	288,889	14,851,542
Equipment and furniture	746,882	105,951	92,385	760,448
Leasehold improvements	914,740	17,592	16,341	915,991
Construction in progress	<u>165,217</u>	<u>0</u>	<u>118,621</u>	<u>46,596</u>
Total	<u>\$ 16,008,009</u>	<u>\$ 1,519,110</u>	<u>\$ 516,236</u>	<u>\$ 17,010,883</u>

Note 9 - Notes Receivable

This classification includes the following accounts:

	<u>Low Rent</u>
Mortgage receivable	<u>\$ 10,258</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 10 - Accounts Payable

This classification includes the following accounts:

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Vendors and contractors	\$ 63,818	\$ 0	\$ 0
Other	0	0	512
Tenants security deposits	17,180	0	0
Accounts payable - HUD	0	0	0
Payroll deductions	241	0	0
Subtotal	<u>\$ 81,239</u>	<u>\$ 0</u>	<u>\$ 512</u>
Interfund	<u>0</u>	<u>111,691</u>	<u>100,012</u>
Total	<u>\$ 81,239</u>	<u>\$ 111,691</u>	<u>\$ 100,524</u>
	<u>New</u>	<u>Business</u>	<u>Total</u>
	<u>Construction</u>	<u>Activities</u>	
Vendors and contractors	\$ 0	\$ 0	\$ 63,818
Other	0	0	512
Tenants security deposits	0	14,901	32,081
Accounts payable - HUD	10,213	0	10,213
Payroll deductions	0	0	241
Subtotal	<u>\$ 10,213</u>	<u>\$ 14,901</u>	<u>\$ 106,865</u>
Interfund	<u>2,218</u>	<u>39,237</u>	<u>253,158</u>
Total	<u>\$ 12,431</u>	<u>\$ 54,138</u>	<u>\$ 360,023</u>

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

	<u>Low Rent</u>	<u>Voucher</u>	<u>New</u>	<u>Total</u>
			<u>Construction</u>	
Current Portion:				
Accrued salaries/wages	\$ 11,163	\$ 0	\$ 0	\$ 11,163
Accrued payroll taxes	1,050	0	0	1,050
Accrued compensated absences	<u>20,005</u>	<u>3,071</u>	<u>267</u>	<u>23,343</u>
Subtotal Current	<u>\$ 32,218</u>	<u>\$ 3,071</u>	<u>\$ 267</u>	<u>\$ 35,556</u>
Accrued compensated absences	<u>24,181</u>	<u>4,979</u>	<u>433</u>	<u>29,593</u>
Total	<u>\$ 56,399</u>	<u>\$ 8,050</u>	<u>\$ 700</u>	<u>\$ 65,149</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

	<u>Low Rent</u>
Homebuyers ownership reserve	\$ 21,345
Homebuyers nonroutine maintenance reserve	<u>33,606</u>
Total	<u>\$ 54,951</u>

Note 13 - Deferred Revenue

This classification consists of the following accounts:

	<u>Low Rent</u>	<u>Business Activities</u>	<u>Total</u>
Tenants prepaid rent	\$ 2,614	\$ 6,533	\$ 9,147
Investment income - homebuyers ownership reserve - unapplied	374	0	374
Other deferred credits	<u>375</u>	<u>10,000</u>	<u>10,375</u>
Total	<u>\$ 3,363</u>	<u>\$ 16,533</u>	<u>\$ 19,896</u>

Note 14 - 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.

The detail of the Housing Authority's other long term debt at year end is set forth below:

	<u>Rate</u>	<u>Due Date</u>	<u>Current Portion</u>	<u>Long Term Portion</u>	<u>Total</u>
Commercial line of credit	4.75%	03/26/05	<u>\$ 637,147</u>	<u>\$ 0</u>	<u>\$ 637,147</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 14 - Long Term Debt (Continued)

Debt service requirements for the long term debt for the next five years are as follows:

<u>Due Fiscal Year Ending</u>	<u>Business Activities</u>
2005	\$ 637,147
2006	0
2007	0
2008	0
2009	0
Thereafter	0

Note 15 - 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 \$42.44 from October through December and \$39.82 from January through September for the first 600 units under HAP contract. The PHA owned units are \$16.98 from October through December. The New Construction units are \$20.73 for the first 600 units for fiscal year ending September 30, 2004.

Note 16 - 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.

Note 17 - 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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004
(CONTINUED)**

Note 18 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Voided checks	\$	69
Write off receivables		-3,696
Additional payable		<u>36</u>
Total	\$	<u>-3,591</u>

Note 19 - 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 20 - Economic Dependency

The Housing Authority received most of its revenue (80%) 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, 2004**

<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*	14.850	C-933	FYE 09/30/04	\$ 755,288	\$ 755,288	\$ 755,288
Public Housing - Capital Fund*	14.872	C-933	FYE 09/30/04	\$ 1,390,596	\$ 799,255	\$ 799,255
Lower Income Housing Assistance Program - New Construction	14.182	C-2062	FYE 09/30/04	\$ 280,462	\$ 280,462	\$ 280,462
Housing Choice Voucher Program*	14.871	C-2057V	FYE 09/30/04	\$ 1,230,678	\$ 1,230,678	\$ 1,230,678
Total Housing Assistance				<u>\$ 3,657,024</u>	<u>\$ 3,065,683</u>	<u>\$ 3,065,683</u>

*Denotes major program.

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

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

ASSETS

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 523,620	\$ 0	\$ 108,727
Accounts receivable	394,221	111,691	80,947
Accrued interest receivable	10	0	0
Notes receivable	10,258	0	0
Investments	476,875	0	0
Inventory	24,579	0	0
Deferred charges	<u>29,559</u>	<u>0</u>	<u>3,328</u>
 Total Current Assets	 <u>\$ 1,459,122</u>	 <u>\$ 111,691</u>	 <u>\$ 193,002</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 13,635,395	\$ 840,461	\$ 86,456
Less: Accumulated depreciation	<u>-9,924,070</u>	<u>-8,871</u>	<u>-52,345</u>
 Net Capital Assets	 <u>\$ 3,711,325</u>	 <u>\$ 831,590</u>	 <u>\$ 34,111</u>
 Total Assets	 <u>\$ 5,170,447</u>	 <u>\$ 943,281</u>	 <u>\$ 227,113</u>

LIABILITIES

CURRENT LIABILITIES			
Accounts payable	\$ 81,239	\$ 111,691	\$ 100,524
Accrued liabilities	32,218	0	3,071
Trust and deposit liabilities	54,951	0	0
Deferred credits	<u>3,363</u>	<u>0</u>	<u>0</u>
 Total Current Liabilities	 <u>\$ 171,771</u>	 <u>\$ 111,691</u>	 <u>\$ 103,595</u>
NONCURRENT LIABILITIES			
Accrued liabilities	<u>\$ 24,181</u>	<u>\$ 0</u>	<u>\$ 4,979</u>
 Total Noncurrent Liabilities	 <u>\$ 24,181</u>	 <u>\$ 0</u>	 <u>\$ 4,979</u>

NET ASSETS

Unrestricted	\$ 1,263,170	\$ 0	\$ 84,428
Invested in capital assets	<u>3,711,325</u>	<u>831,590</u>	<u>34,111</u>
 Total Net Assets	 <u>\$ 4,974,495</u>	 <u>\$ 831,590</u>	 <u>\$ 118,539</u>

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

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

<u>ASSETS</u>	New <u>Construction</u>	Business <u>Activities</u>
CURRENT ASSETS		
Cash	\$ 0	\$ 192,238
Accounts receivable	61,629	49,087
Investments	0	597,625
Deferred charges	<u>0</u>	<u>92,198</u>
Total Current Assets	<u>\$ 61,629</u>	<u>\$ 931,148</u>
CAPITAL ASSETS		
Land, buildings and equipment	\$ 2,040	\$ 2,446,531
Less: Accumulated depreciation	<u>-2,040</u>	<u>-256,408</u>
Net Capital Assets	<u>\$ 0</u>	<u>\$ 2,190,123</u>
Total Assets	<u>\$ 61,629</u>	<u>\$ 3,121,271</u>
 <u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 12,431	\$ 54,138
Accrued liabilities	267	0
Notes payable	0	637,147
Deferred credits	<u>0</u>	<u>16,533</u>
Total Current Liabilities	<u>\$ 12,698</u>	<u>\$ 707,818</u>
NONCURRENT LIABILITIES		
Accrued liabilities	<u>\$ 433</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 433</u>	<u>\$ 0</u>
 <u>NET ASSETS</u>		
Unrestricted	\$ 48,498	\$ 860,477
Invested in capital assets	<u>0</u>	<u>1,552,976</u>
Total Net Assets	<u>\$ 48,498</u>	<u>\$ 2,413,453</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Dwelling rental	\$ 445,852	\$ 0	\$ 0
Excess utilities	35,516	0	0
Nondwelling rental	150	0	0
Total Rental Income	\$ 481,518	\$ 0	\$ 0
HUD grants - operating	755,288	85,624	1,230,678
Other income	18,160	0	5,106
Fraud recovery	0	0	33
Total Operating Income	\$ 1,254,966	\$ 85,624	\$ 1,235,817
<u>Operating Expenses</u>			
Administration	\$ 379,665	\$ 41,016	\$ 120,620
Tenant services	4,432	27,563	0
Utilities	237,346	0	0
Ordinary maintenance and operation	528,729	4,836	0
General expense	107,998	0	18,228
Depreciation	913,992	6,718	8,177
Housing assistance payments	0	0	1,129,990
Total Operating Expenses	\$ 2,172,162	\$ 80,133	\$ 1,277,015
Net Operating Income (Loss)	\$ -917,196	\$ 5,491	\$ -41,198
<u>Nonoperating Income (Expense)</u>			
HUD grant - capital	\$ 0	\$ 713,631	\$ 0
Interest income	4,483	0	222
Transfer	57,009	-12,209	0
Total Nonoperating Income (Expense)	\$ 61,492	\$ 701,422	\$ 222
Changes in Net Assets	\$ -855,704	\$ 706,913	\$ -40,976

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Income</u>	New <u>Construction</u>	Business <u>Activities</u>
Dwelling rental	\$ 0	\$ 193,855
Excess utilities	<u>0</u>	<u>109</u>
Total Rental Income	\$ 0	\$ 193,964
HUD grants - operating	280,462	0
Other grants	0	58,656
Loss - disposal of equipment	0	-86
Other income	<u>0</u>	<u>2,077</u>
Total Operating Income	<u>\$ 280,462</u>	<u>\$ 254,611</u>
 <u>Operating Expenses</u>		
Administration	\$ 9,123	\$ 12,224
Utilities	0	3,133
Ordinary maintenance and operation	0	19,624
General expense	817	30,139
Nonroutine maintenance	0	58,323
Depreciation	0	61,223
Housing assistance payments	<u>271,080</u>	<u>0</u>
Total Operating Expenses	<u>\$ 281,020</u>	<u>\$ 184,666</u>
Net Operating Income (Loss)	<u>\$ -558</u>	<u>\$ 69,945</u>
 <u>Nonoperating Income (Expense)</u>		
Interest income	\$ 154	\$ 5,210
Interest expense	0	-14,008
Transfer	<u>0</u>	<u>-44,800</u>
Total Nonoperating Income (Expense)	<u>\$ 154</u>	<u>\$ -53,598</u>
Changes in Net Assets	<u>\$ -404</u>	<u>\$ 16,347</u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Net HUD PHA Contributions</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at September 30, 2003	\$ 3,953,273	\$ 0	\$ 0
GASB #34 transfer	<u>-3,953,273</u>	<u>0</u>	<u>0</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Undesignated Fund Balance</u>			
Balance at September 30, 2003	\$ 1,522,896	\$ 436,784	\$ 163,175
Current year income (loss)	-855,704	706,913	-40,976
GASB #34 transfer	-979,368	-831,590	-118,539
Capital Fund transfer	312,107	-312,107	0
Prior year adjustments	<u>69</u>	<u>0</u>	<u>-3,660</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Donations</u>			
Balance at September 30, 2003	\$ 41,854	\$ 0	\$ 0
GASB #34 transfer	<u>-41,854</u>	<u>0</u>	<u>0</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Unrestricted</u>			
Balance at September 30, 2003	\$ 0	\$ 0	\$ 0
GASB #34 transfer	<u>3,711,325</u>	<u>831,590</u>	<u>34,111</u>
Balance at September 30, 2004	<u>\$ 3,711,325</u>	<u>\$ 831,590</u>	<u>\$ 34,111</u>
 <u>Invested in Capital Assets</u>			
Balance at September 30, 2003	\$ 0	\$ 0	\$ 0
GASB #34 transfer	<u>1,263,170</u>	<u>0</u>	<u>84,428</u>
Balance at September 30, 2004	<u>\$ 1,263,170</u>	<u>\$ 0</u>	<u>\$ 84,428</u>
Total Net Assets	<u>\$ 4,974,495</u>	<u>\$ 831,590</u>	<u>\$ 118,539</u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Net HUD PHA Contributions</u>	New Construction	Business Activities
Balance at September 30, 2003	\$ 0	\$ 1,292,088
GASB #34 transfer	<u>0</u>	<u>-1,292,088</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Undesignated Fund Balance</u>		
Balance at September 30, 2003	\$ 48,902	\$ 1,105,018
Current year income (loss)	-404	16,347
GASB #34 transfer	<u>-48,498</u>	<u>-1,121,365</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>
 <u>Unrestricted</u>		
Balance at September 30, 2003	\$ 0	\$ 0
GASB #34 transfer	<u>48,498</u>	<u>860,477</u>
Balance at September 30, 2004	<u>\$ 48,498</u>	<u>\$ 860,477</u>
 <u>Invested in Capital Assets</u>		
Balance at September 30, 2003	\$ 0	\$ 0
GASB #34 transfer	<u>0</u>	<u>1,552,976</u>
Balance at September 30, 2004	<u>\$ 0</u>	<u>\$ 1,552,976</u>
Total Net Assets	<u>\$ 48,498</u>	<u>\$ 2,413,453</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 566,466	\$ 94,925	\$ 1,173,216
Dwelling rental	488,204	0	0
Other revenue	18,160	0	5,139
Housing assistance payments	0	0	-1,129,990
Payments to employees	-244,352	-5,193	-59,169
Payments to suppliers and contractors	<u>-763,217</u>	<u>-77,523</u>	<u>-85,039</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 65,261</u>	<u>\$ 12,209</u>	<u>\$ -95,843</u>
 <u>Investing Activities</u>			
(Additions) deletions to fixed assets	\$ -19,252	\$ -713,631	\$ -312
Investments (purchased) redeemed	-3,667	0	0
Interest income	<u>4,483</u>	<u>0</u>	<u>222</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -18,436</u>	<u>\$ -713,631</u>	<u>\$ -90</u>
 <u>Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 713,631	\$ 0
Retirement of debt	0	0	0
Transfer	<u>57,009</u>	<u>-12,209</u>	<u>0</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 57,009</u>	<u>\$ 701,422</u>	<u>\$ 0</u>
Net Change in Cash	\$ 103,834	\$ 0	\$ -95,933
Cash Balance at September 30, 2003	<u>419,786</u>	<u>0</u>	<u>204,660</u>
Cash Balance at September 30, 2004	<u>\$ 523,620</u>	<u>\$ 0</u>	<u>\$ 108,727</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -917,196	\$ 5,491	\$ -41,198
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	913,992	6,718	8,177
Adjustments to equity	69	0	-3,660
(Increase) decrease in accounts receivable	104,020	9,301	-41,897
(Increase) decrease in deferred charges	-11,612	0	-2,278
(Increase) decrease in other assets	-10,162	0	0
Increase (decrease) in accounts payable	-3,234	-9,301	-17,553
Increase (decrease) in accrued liabilities	-7,882	0	2,566
Increase (decrease) in deferred revenues	696	0	0
Increase (decrease) in other liabilities	<u>-3,430</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 65,261</u>	<u>\$ 12,209</u>	<u>\$ -95,843</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Operating Activities</u>	New <u>Construction</u>	Drug <u>Elimination</u>	Business <u>Activities</u>
Operating grants	\$ 275,582	\$ 62,651	\$ 58,656
Dwelling rental	0	0	199,609
Other revenue	0	0	1,991
Housing assistance payments	-271,080	0	0
Payments to employees	-4,960	0	0
Payments to suppliers and contractors	<u>304</u>	<u>-62,651</u>	<u>-189,540</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -154</u>	<u>\$ 0</u>	<u>\$ 70,716</u>
 <u>Investing Activities</u>			
(Additions) deletions to fixed assets	\$ 0	\$ 0	\$ -381,513
Disposition of fixed assets	0	0	60,397
Investments (purchased) redeemed	0	0	-7,908
Investment income	<u>154</u>	<u>0</u>	<u>5,210</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 154</u>	<u>\$ 0</u>	<u>\$ -323,814</u>
 <u>Financing Activities</u>			
Retirement of debt	\$ 0	\$ 0	\$ 324,452
Interest expense	0	0	-14,008
Transfer	<u>0</u>	<u>0</u>	<u>-44,800</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 265,644</u>
Net Change in Cash	\$ 0	\$ 0	\$ 12,546
Cash Balance at September 30, 2003	<u>0</u>	<u>0</u>	<u>179,692</u>
Cash Balance at September 30, 2004	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 192,238</u></u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2004**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>New Construction</u>	<u>Drug Elimination</u>	<u>Business Activities</u>
Net operating income (loss)	\$ -558	\$ 0	\$ 69,945
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	0	0	61,223
(Increase) decrease in accounts receivable	69,371	62,651	-49,087
(Increase) decrease in deferred charges	0	0	180,542
Increase (decrease) in accounts payable	-68,774	-62,651	-207,538
Increase (decrease) in accrued liabilities	-193	0	0
Increase (decrease) in deferred revenues	<u>0</u>	<u>0</u>	<u>15,631</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -154</u>	<u>\$ 0</u>	<u>\$ 70,716</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P0190501-01**

1. The Actual Modernization Costs of Phase IN36P0190501-01 are as follows:

Funds approved	\$ 493,366
Funds expended	<u>493,366</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Project notes, non-HUD	\$ 493,366
Funds expended	<u>493,366</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 24, 2004, 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 Compliance and on Internal Control Over Financial Reporting 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 Michigan City Housing Authority as of and for the year ended September 30, 2004, and have issued my report thereon dated May 20, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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, regulations, contracts and grants, 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 such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Michigan City Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

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.

Decatur, Illinois
May 20, 2005


Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

Report on Compliance With Requirements Applicable to Each Major Program and 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 the 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, 2004. 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 on Michigan City Housing Authority's compliance with those requirements.

In my opinion, the Housing Authority of the City of Michigan City 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, 2004. However, the results of my auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of Michigan City Housing Authority is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the financial statements of the Michigan City Housing Authority of and for the year ended September 30, 2004, and have issued my report hereon dated May 20, 2005. My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. 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 material respects, in relation to the financial statements taken as a whole.

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.

Decatur, Illinois
May 20, 2005


Certified Public Accountant

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Summary of Auditor's Results

Low Risk Auditee X yes 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
Capital Funds Program	14.872
Housing Choice Voucher Program	14.871

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

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended September 30, 2003 contained no findings.

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

CURRENT FINDINGS AND RECOMMENDATIONS

There were no audit findings discussed with Evonne Stephens-Norvell, Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held May 20, 2005.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2004**

<u>Low Rent</u>	<u>Audit</u> <u>Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting</u> <u>Account Number</u>
(1)				
Accrued wages	2135	\$ 2,790.78		2135
Administrative salaries	4110		\$ 794.49	2806
Maintenance wages	4410		911.97	2806
Due from Voucher	1129.2		282.01	1129.2
Due from New Construction	1129.3		16.29	1129.3
Due from Capital Funds			324.97	
Due from owned	1129.4		461.05	1129.4
(To adjust accrued wages - wages for 10/01/04 removed from calculations)				
(2)				
Accrued compensated absences - ST	2135.1	\$ 2,822.18		2135.1
Compensated absences	4120		\$ 2,822.18	2806
(To correct accrual @ 09/30/04 for Albert, Mogba and Norvell per vacation log examined)				
(3)				
Contracts	4430	\$ 1,801.72		2806
Other prepaid	1290		\$ 1,801.72	1290
(To reverse entry ck #82357 for 08/04 to 09/29/04 - no prepaid)				
(4)				
Collection losses	4570	\$ 343.00		2806
Allowance for doubtful accounts	1130.1		\$ 343.00	1130.1
(To write off portion of note receivable due 07/01/25, estimated to be uncollectible)				
<u>Voucher</u>				
(1)				
Due to Low Rent	2119.1	\$ 282.01		2119.1
Administrative salaries	4110		\$ 282.01	2806
(To adjust accrued wages payable - for 10/01/04 wages accrued)				
(2)				
Accounts payable - other	2119	\$ 1,384.58		2119
Accounts receivable - other	1129		\$ 4,172.52	1129
Unrestricted net assets	2806	2,787.94		2806
(To adjust to portability statement sheet at 09/30/04)				

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2004**

<u>Capital Funds</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Due to Low Rent	----	\$ 324.97		n/a
Administrative wages	3-1473.03		\$ 228.97	n/a
Administrative wages	4-1408.1		96.00	n/a
(To reverse accrual of 10/01/04 wages)				
(2)				
Operating grants - 2002	----	\$ 228.97		n/a
Operating grants - 501-03	----	96.00		n/a
Accounts receivable - HUD	----		\$ 324.97	n/a
(***)				
<u>New Construction</u>				
(1)				
Due to Low Rent	2119.1	\$ 16.29		2119.1
Administrative wages	4110		\$ 16.29	2806
(To adjust accrued wages - 10/01/04 wages accrued for 09/30/04)				
<u>Business Activities</u>				
(1)				
Due to Low Rent	----	\$ 461.05		n/a
	1255.12		\$ 70.17	n/a
	1255.13		58.08	n/a
Beautification costs	4303-9190.02		322.80	n/a
(To adjust accrued wages for 10/01/04 salaries accrued at 09/30/04)				

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Line Item No.	Account Description	Business Activities	N/C S/R Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$192,238	\$0	\$523,620	\$108,727	\$0	\$824,585
100	Total Cash	\$192,238	\$0	\$523,620	\$108,727	\$0	\$824,585
121	Accounts Receivable - PHA Projects	\$0	\$0	\$0	\$28,503	\$0	\$28,503
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$188,822	\$52,444	\$111,691	\$352,957
124	Accounts Receivable - Other Government	\$48,656	\$0	\$0	\$0	\$0	\$48,656
125	Accounts Receivable - Miscellaneous	\$0	\$0	\$2,800	\$0	\$0	\$2,800
126	Accounts Receivable - Dwelling Rents	\$1,097	\$0	\$29,505	\$0	\$0	\$30,602
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-666	\$0	\$-18,435	\$0	\$0	\$-19,101
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0
127	Notes, Loans, & Mortgages Receivable - Current	\$0	\$0	\$10,258	\$0	\$0	\$10,258
129	Accrued Interest Receivable	\$0	\$0	\$10	\$0	\$0	\$10
120	Total Receivables, net of allowances for doubtful accounts	\$19,087	\$0	\$212,960	\$80,947	\$111,691	\$454,685
131	Investments - Unrestricted	\$597,625	\$0	\$476,875	\$0	\$0	\$1,074,500
142	Prepaid Expenses and Other Assets	\$92,198	\$0	\$29,559	\$3,328	\$0	\$125,085
143	Inventories	\$0	\$0	\$24,579	\$0	\$0	\$24,579
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$61,629	\$191,529	\$0	\$0	\$253,158
150	Total Current Assets	\$931,148	\$61,629	\$1,459,122	\$193,002	\$111,691	\$2,756,592
161	Land	\$62,896	\$0	\$373,410	\$0	\$0	\$436,306
162	Buildings	\$2,334,656	\$0	\$11,738,077	\$394	\$778,415	\$14,851,542
163	Furniture, Equipment & Machinery - Dwellings	\$5,007	\$0	\$178,938	\$0	\$6,080	\$190,025
164	Furniture, Equipment & Machinery - Administration	\$25,816	\$2,040	\$448,385	\$86,062	\$8,120	\$570,423
165	Leasehold Improvements	\$18,156	\$0	\$896,585	\$0	\$1,250	\$915,991
166	Accumulated Depreciation	\$-256,408	\$-2,040	\$-9,924,070	\$-52,345	\$-8,871	\$-10,243,734
167	Construction In Progress	\$0	\$0	\$0	\$0	\$46,596	\$46,596
160	Total Fixed Assets, Net of Accumulated Depreciation	\$2,190,123	\$0	\$3,711,325	\$34,111	\$831,590	\$6,767,149
180	Total Non-Current Assets	\$2,190,123	\$0	\$3,711,325	\$34,111	\$831,590	\$6,767,149
190	Total Assets	\$3,121,271	\$61,629	\$5,170,447	\$227,113	\$943,281	\$9,523,741

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Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$63,818	\$0	\$0	\$63,818
321	Accrued Wage/Payroll Taxes Payable	\$0	\$0	\$12,454	\$0	\$0	\$12,454
322	Accrued Compensated Absences - Current Portion	\$0	\$267	\$20,005	\$3,071	\$0	\$23,343
331	Accounts Payable - HUD PHA Programs	\$0	\$10,213	\$0	\$0	\$0	\$10,213
332	Accounts Payable - PHA Projects	\$0	\$0	\$0	\$512	\$0	\$512
341	Tenant Security Deposits	\$14,901	\$0	\$17,180	\$0	\$0	\$32,081
342	Deferred Revenues	\$16,533	\$0	\$3,363	\$0	\$0	\$19,896
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$637,147	\$0	\$0	\$0	\$0	\$637,147
345	Other Current Liabilities	\$0	\$0	\$54,951	\$0	\$0	\$54,951
347	Interprogram Due To	\$39,237	\$2,218	\$0	\$100,012	\$111,691	\$253,158
310	Total Current Liabilities	\$707,818	\$12,698	\$171,771	\$103,595	\$111,691	\$1,107,573
354	Accrued Compensated Absences - Non Current	\$0	\$433	\$24,181	\$4,979	\$0	\$29,593
350	Total Noncurrent Liabilities	\$0	\$433	\$24,181	\$4,979	\$0	\$29,593
300	Total Liabilities	\$707,818	\$13,131	\$195,952	\$108,574	\$111,691	\$1,137,166
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$1,552,976	\$0	\$3,711,325	\$34,111	\$831,590	\$6,130,002
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$860,477	\$48,498	\$1,263,170	\$84,428	\$0	\$2,256,573
513	Total Equity/Net Assets	\$2,413,453	\$48,498	\$4,974,495	\$118,539	\$831,590	\$8,386,575
600	Total Liabilities and Equity/Net Assets	\$3,121,271	\$61,629	\$5,170,447	\$227,113	\$943,281	\$9,523,741

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Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$193,855	\$0	\$445,852	\$0	\$0	\$639,707
704	Tenant Revenue - Other	\$109	\$0	\$35,666	\$0	\$0	\$35,775
705	Total Tenant Revenue	\$193,964	\$0	\$481,518	\$0	\$0	\$675,482
706	HUD PHA Operating Grants	\$0	\$280,462	\$755,288	\$1,230,678	\$85,624	\$2,352,052
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$713,631	\$713,631
708	Other Government Grants	\$58,656	\$0	\$0	\$0	\$0	\$58,656
711	Investment Income - Unrestricted	\$5,210	\$154	\$4,483	\$222	\$0	\$10,069
714	Fraud Recovery	\$0	\$0	\$0	\$33	\$0	\$33
715	Other Revenue	\$2,077	\$0	\$18,160	\$5,106	\$0	\$25,343
716	Gain/Loss on Sale of Fixed Assets	\$-86	\$0	\$0	\$0	\$0	\$-86
700	Total Revenue	\$259,821	\$280,616	\$1,259,449	\$1,236,039	\$799,255	\$3,835,180

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Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$0	\$4,767	\$235,741	\$61,735	\$0	\$302,243
912	Auditing Fees	\$0	\$0	\$3,770	\$0	\$0	\$3,770
913	Outside Management Fees	\$0	\$0	\$0	\$0	\$0	\$0
914	Compensated Absences	\$0	\$-193	\$-7,325	\$2,565	\$0	\$-4,953
915	Employee Benefit Contributions - Administrative	\$0	\$1,470	\$70,846	\$18,457	\$0	\$90,773
916	Other Operating - Administrative	\$12,224	\$3,079	\$76,633	\$37,863	\$41,016	\$170,815
921	Tenant Services - Salaries	\$0	\$0	\$0	\$0	\$5,193	\$5,193
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$0	\$0	\$616	\$616
924	Tenant Services - Other	\$0	\$0	\$4,432	\$0	\$21,754	\$26,186
931	Water	\$696	\$0	\$23,047	\$0	\$0	\$23,743
932	Electricity	\$1,176	\$0	\$77,910	\$0	\$0	\$78,986
933	Gas	\$1,077	\$0	\$95,167	\$0	\$0	\$96,244
938	Other Utilities Expense	\$184	\$0	\$41,322	\$0	\$0	\$41,506
941	Ordinary Maintenance and Operations - Labor	\$0	\$0	\$322,534	\$0	\$0	\$322,534
942	Ordinary Maintenance and Operations - Materials and Other	\$5,071	\$0	\$39,955	\$0	\$0	\$45,026
943	Ordinary Maintenance and Operations - Contract Costs	\$14,553	\$0	\$44,481	\$0	\$0	\$59,034
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$0	\$121,759	\$0	\$0	\$121,759
951	Protective Services - Labor	\$0	\$0	\$0	\$0	\$4,333	\$4,333
955	Employee Benefit Contributions - Protective Services	\$0	\$0	\$0	\$0	\$503	\$503
961	Insurance Premiums	\$7,952	\$0	\$64,533	\$12,477	\$0	\$84,962
962	Other General Expenses	\$8,747	\$817	\$35,483	\$5,751	\$0	\$50,798
963	Payments in Lieu of Taxes	\$12,774	\$0	\$90	\$0	\$0	\$12,864
964	Bad Debt - Tenant Rents	\$666	\$0	\$7,892	\$0	\$0	\$8,558
967	Interest Expense	\$14,008	\$0	\$0	\$0	\$0	\$14,008
969	Total Operating Expenses	\$79,128	\$9,940	\$1,258,170	\$138,848	\$73,415	\$1,559,501
970	Excess Operating Revenue over Operating Expenses	\$180,693	\$270,676	\$1,279	\$1,097,191	\$725,840	\$2,275,679
971	Extraordinary Maintenance	\$58,323	\$0	\$0	\$0	\$0	\$58,323
973	Housing Assistance Payments	\$0	\$271,080	\$0	\$1,129,990	\$0	\$1,401,070
974	Depreciation Expense	\$61,223	\$0	\$913,992	\$8,177	\$6,718	\$990,110
900	Total Expenses	\$198,674	\$281,020	\$2,172,162	\$1,277,015	\$80,133	\$4,009,004
1001	Operating Transfers In	\$0	\$0	\$57,009	\$0	\$0	\$57,009
1002	Operating Transfers Out	\$-44,800	\$0	\$0	\$0	\$-12,209	\$-57,009
1010	Total Other Financing Sources (Uses)	\$-44,800	\$0	\$57,009	\$0	\$-12,209	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$16,347	\$-404	\$-855,704	\$-40,976	\$706,913	\$-173,824

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Line Item No.	Account Description	Business Activities	N/C S/R Section 8 Programs	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$2,397,106	\$48,902	\$5,518,022	\$163,175	\$436,784	\$8,563,989
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$312,177	\$-3,660	\$-312,107	\$-3,590
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$269,174	\$0	\$1,186,321	\$0	\$1,457,495
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$331,604	\$0	\$42,357	\$0	\$373,961
1116	Total Annual Contributions Available	\$0	\$600,778	\$0	\$1,230,678	\$0	\$1,831,456
1120	Unit Months Available	458	480	2,328	3,012	0	6,278
1121	Number of Unit Months Leased	440	455	2,213	2,979	0	6,087