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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513

Fax: (317) 232-4711

Web Site: www.in.gov/sboa

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, 2004 to September 30, 2005. 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, 2005, 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, 2005

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

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PAMELA J. SIMPSON, C.P.A.

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

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, 2005, 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, 2005 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 May 17, 2006, 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. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. 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 16 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 17, 2006


Certified Public Accountant

HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

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 2005. Since the Authority engages only in business-type activities, the increase is all the categories of business-type net assets. Net Assets were \$8.4 million and \$8.0 million for 2004 and 2005 respectively.
- ❖ The business-type activities revenue decreased by \$183,902 (or 26%) during 2004, and was \$710,841 and \$894,743 for 2004 and 2005 respectively.
- ❖ The total expenses of all Authority programs decreased by \$232,926 (or 6%). Total expenses were \$4.0 million and \$3.8 million for 2004 and 2005 respectively.
- ❖ The Authority had \$726,279 in Tenant Revenue, \$2,074,694 in HUD PHA Operating Grants and \$333,007 of HUD Capital Grants for the year ended September 30, 2005.
- ❖ Authority investments decreased by \$49,826 (or 5%) during the year. Total investments on September 30, 200 were \$1,024,674.

**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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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, 2005.

❖ **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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

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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.

**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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

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

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>Percentage Change</u>
Cash	897,291	824,585	72,706	8.8%
Other Current Assets	1,987,655	1,932,007	55,648	2.9%
Capital Assets	6,478,059	6,767,149	(289,090)	-4.3%
Non Current Assets	0	0	0	0.0%
Total Assets	<u>9,363,005</u>	<u>9,523,741</u>	<u>(160,736)</u>	<u>-1.7%</u>
Current Liabilities	1,352,768	1,107,573	245,195	22.1%
Long Term Liabilities	33,190	29,593	3,597	12.2%
Total Liabilities	<u>1,385,958</u>	<u>1,137,166</u>	<u>248,792</u>	<u>21.9%</u>
Net Invested in Capital Assets	5,725,786	6,130,002	(404,216)	-6.6%
Restricted Net Assets	0	0	0	0.0%
Unrestricted Net Assets	2,251,261	2,256,573	(5,312)	-0.2%
Total Net Assets	<u>7,977,047</u>	<u>8,386,575</u>	<u>(409,528)</u>	<u>-4.9%</u>

Major Factors Affecting the Statement of Net Assets

Current assets remained relatively even during the year and current liabilities increased by \$245,195. 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 \$6.5 million. The \$0.2 million decrease 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.

**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

Analysis of Entity Wide Revenues (Statement of Activities)

The Authority administers the following programs and the grant revenues generated from these programs during Fiscal Year Ending 2005 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$683,155
Section 8 Vouchers	\$1,267,389
Capital Fund Program	\$433,197
New Construction	\$23,961

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 ASSETS

		<u>Millions of dollars</u>
Unrestricted Net Assets 09/30/05		2.3
Results of Operations	(.4)	
Adjustments:		
Depreciation (1)	1.0	
Adjusted Results from Operations		(.6)
Capital Expenditures		<u>.6</u>
Unrestricted Net Assets 09/30/05		<u>\$ 2.3</u>

(1) 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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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 AND CHANGES IN NET ASSETS

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>Percentage Change</u>
Total Tenant Revenue	726,279	675,482	50,797	8%
HUD Operating Grants	2,074,695	2,352,052	(277,357)	-12%
HUD Capital Grants	333,007	713,631	(380,624)	-53%
Other Grants	0	56,656	(56,656)	-100%
Investment Income	24,634	10,069	14,565	145%
Fraud Recovery	0	33	(33)	-100%
Other Revenue	129,865	25,343	104,522	412%
Gain (Loss) on Sale of Fixed Assets	13,965	(86)	14,051	-16338%
Total Revenue	<u>3,302,445</u>	<u>3,833,180</u>	<u>(530,735)</u>	<u>-14%</u>

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>Percentage Change</u>
Administrative	660,769	562,648	98,121	17%
Tenant Services	8,514	31,995	(23,481)	-73%
Utilities	260,436	240,479	19,957	8%
Maintenance	472,914	548,353	(75,439)	-14%
Protective Services	21,166	4,836	16,330	338%
General Expense	182,107	171,190	10,917	6%
Extraordinary Maintenance	108,424	58,323	50,101	86%
Housing Assistance Payments	1,122,533	1,401,070	(278,537)	-20%
Depreciation Expense	938,413	990,110	(51,697)	-5%
Total Expenses	<u>3,775,276</u>	<u>4,009,004</u>	<u>(233,728)</u>	<u>-6%</u>

Major Factors Affecting the Change in Net Assets

Tenant revenue increased. This increase 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, eliminating funds Family Self Sufficiency 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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

CAPITAL ASSETS AT YEAR END (NET OF DEPRECIATION)

As of year-end, the Authority had \$6.5 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 thousand from the prior year-end.

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

	2005	2004	Variance	Percentage Change
Land and land rights	476,544	436,306	40,238	9.2%
Buildings	15,105,014	14,851,542	253,472	1.7%
Equipment - Administrative	190,050	190,025	25	0.0%
Equipment - Dwelling	571,990	570,423	1,567	0.3%
Leasehold Improvements	915,990	915,991	-1	0.0%
Construction in Progress	348,009	46,596	301,413	646.9%
Total Fixed Assets	<u>17,607,597</u>	<u>17,010,883</u>	<u>596,714</u>	<u>3.5%</u>
Accumulated Depreciation	11,129,538	10,243,734	885,804	8.6%
Net Fixed Assets	<u><u>6,478,059</u></u>	<u><u>6,767,149</u></u>	<u><u>-289,090</u></u>	<u><u>-4.3%</u></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	\$ 6,767,149
Additions	706,306
Retirements	(56,983)
Depreciation	<u>(938,413)</u>
Total	<u><u>\$ 6,478,059</u></u>

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

Capital Improvements	\$ 618,160
Equipment Purchases	\$ 35,537

DEBT OUTSTANDING

As of year-end, the Authority had \$752,273 in debt (mortgages, notes, etc.) outstanding compared to \$637,147 the prior year, an increase of \$115,126 (principal due). Line of credit was increased.

TABLE 6

OUTSTANDING DEBT, AT YEAR-END

<u>Business Type</u>	Totals	
	<u>2005</u>	<u>2004</u>
Line of credit	\$ <u>752,273</u>	\$ <u>637,147</u>
Total	\$ <u>752,273</u>	\$ <u>637,147</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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

**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 \$73,959. Actual results of operation reflected a profit of \$19,793.

Tenant Rental Revenues were \$693 or 1% higher 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 over budget by \$38,519. The increase in revenue primarily resulted from interest earnings on investments realizing a higher rate than initially estimated.

Operating Expenditures were well budgeted and controlled with only a \$35,436 or 3% variance in the bottom line.

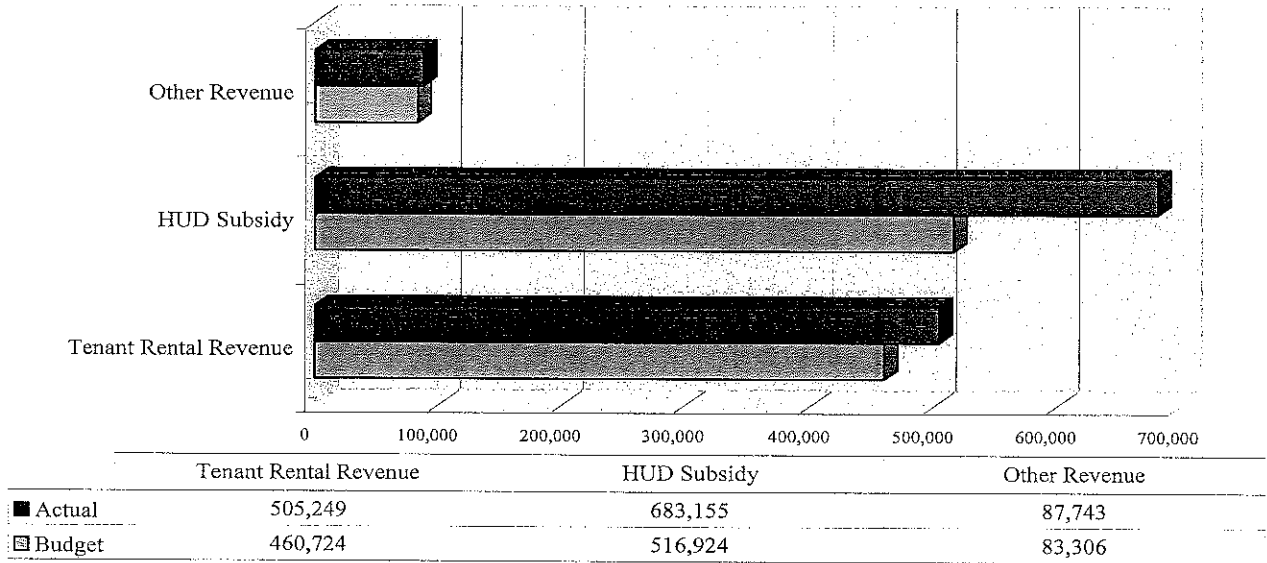
The following tables and graphs illustrate the Authority's effectiveness at estimating revenues and spending within budgeted parameters.

Comparison Budget vs. Actual – Low Rent Public Housing

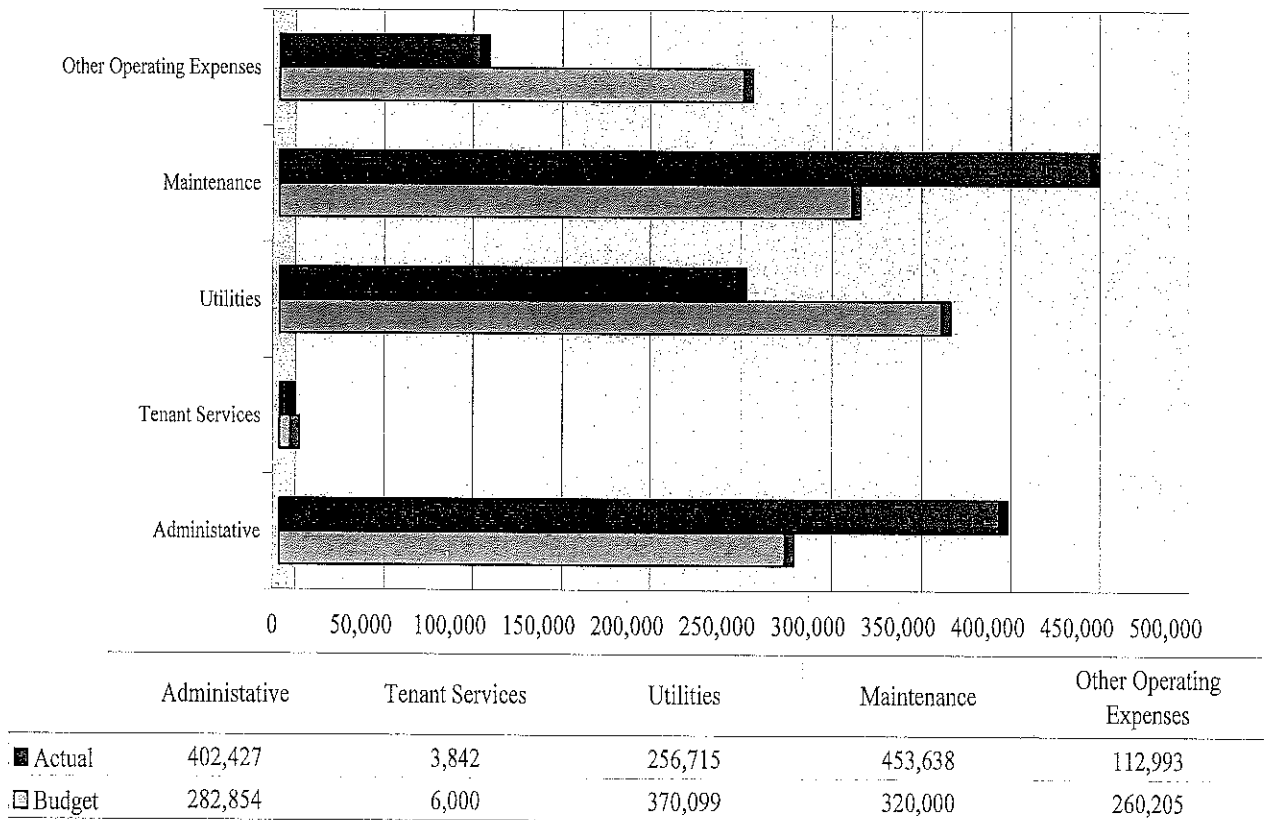
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tenant Rental Revenue	\$ 60,724	\$ 505,249	\$ 44,525
HUD Subsidy	516,924	683,155	166,231
Other Revenue	83,306	87,743	4,437
Total Operating Revenue	<u>1,060,954</u>	<u>1,276,147</u>	<u>215,193</u>
Operating Expense			
Administrative	\$ 282,854	\$ 402,427	\$ -119,573
Tenant Services	6,000	3,842	2,158
Utilities	370,099	256,715	113,384
Maintenance	320,000	453,638	-133,638
Other Operating Expenses	260,205	112,993	147,212
Total Operating Expenses	<u>1,239,158</u>	<u>1,229,615</u>	<u>9,543</u>
Profit (Loss)	<u>-178,204</u>	<u>46,532</u>	<u>224,736</u>

**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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



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



**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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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 originally budgeted for a \$154,316 line amount in Admin Fees. As illustrated in the table below, the Authority actually experienced an operating decrease of \$1,003 (before depreciation and accrued compensated absences).

Annual Contributions Required – Revenues

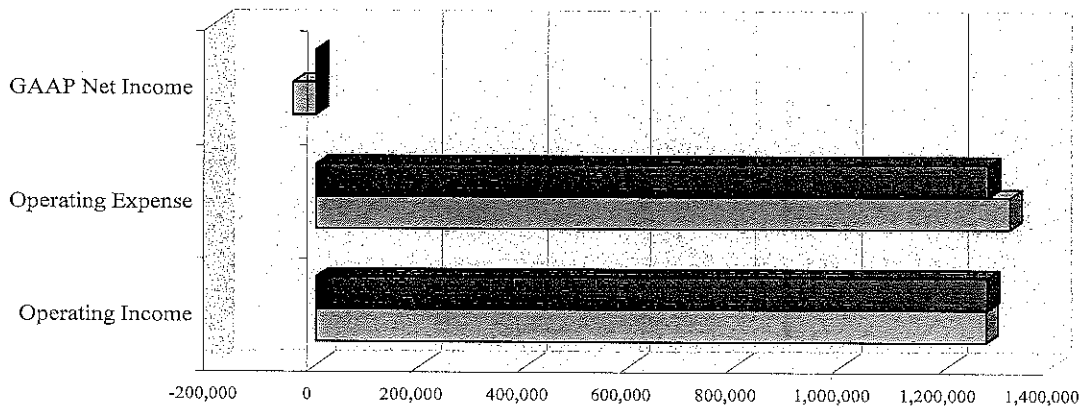
Housing Assistance Payments fell below expectations by \$8,516. This result suggests that the Authority leased less units each month than was budgeted, when in fact, the amount of funds available from HUD was less than originally expected. Due to the uncertainty and subsequent insufficient funding provided 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
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
HUD A. C. Earned	\$ 1,275,905	\$ 1,267,389	(8,516)
Other revenue	0	7,493	7,493
Interest Operating Reserve	0	0	0
Interest Income General Fund	0	2,853	2,853
Portable Admin Fees Earned	<u>0</u>	<u>1,025</u>	<u>1,025</u>
 Total Operating Revenue	 \$ 1,275,905	 \$ 1,278,760	 \$ 2,855
 Operating Expenses:			
Routine Expenses	\$ 154,316	\$ 157,241	(2,925)
Housing Assistance Payments	1,154,092	1,099,087	55,005
Depreciation	0	7,860	(7,860)
Other Operating Expenses	<u>13,000</u>	<u>15,997</u>	<u>(2,997)</u>
 Total Operating Expenses	 \$ 1,321,408	 \$ 1,280,185	 \$ 41,223
 Budget vs. Actual Income (Loss)	 \$ (45,503)	 \$ (1,425)	 \$ (44,078)



	Operating Income	Operating Expense	GAAP Net Income
Actual	1,278,760	1,280,185	-1,425
Budget	1,275,905	1,321,408	-45,503

**HOUSING AUTHORITY OF MICHIGAN CITY
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005**

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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 or 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**

**STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2005**

<u>ASSETS</u>	Proprietary <u>Funds</u>	Component <u>Unit</u>
CURRENT ASSETS		
Cash	\$ 659,362	\$ 237,929
Accounts receivable	493,738	4,871
Notes receivable	9,664	0
Investments	480,437	544,237
Inventory	14,715	0
Deferred charges	<u>25,851</u>	<u>125,742</u>
Total Current Assets	<u>\$ 1,683,767</u>	<u>\$ 912,779</u>
CAPITAL ASSETS		
Land, buildings and equipment	\$ 14,854,311	\$ 2,753,286
Less: Accumulated depreciation	<u>-10,804,254</u>	<u>-325,284</u>
Net Capital Assets	<u>\$ 4,050,057</u>	<u>\$ 2,428,002</u>
Total Assets	<u>\$ 5,733,824</u>	<u>\$ 3,340,781</u>
 <u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 83,567	\$ 89,451
Notes payable	0	752,273
Accrued liabilities	38,168	404
Trust and deposit liabilities	45,875	0
Deferred revenues	<u>5,743</u>	<u>48,887</u>
Total Current Liabilities	<u>\$ 173,353</u>	<u>\$ 891,015</u>
NONCURRENT LIABILITIES		
Accrued liabilities	<u>\$ 33,190</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 33,190</u>	<u>\$ 0</u>
 <u>NET ASSETS</u>		
Invested in capital assets	\$ 4,050,057	\$ 1,675,729
Unrestricted	<u>1,477,224</u>	<u>774,037</u>
Total Net Assets	<u>\$ 5,527,281</u>	<u>\$ 2,449,766</u>

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

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

**STATEMENT OF REVENUE AND EXPENDITURES
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Income</u>	<u>Proprietary Funds</u>	<u>Component Unit</u>
Dwelling rental	\$ 566,164	\$ 110,539
Excess utilities	45,533	3,793
Nondwelling rental	<u>250</u>	<u>0</u>
Total Rental Income	\$ 611,947	\$ 114,332
HUD grants - operating	2,074,695	0
Other revenue	78,515	51,350
Gain (loss) on sale of fixed assets	<u>4,965</u>	<u>9,000</u>
Total Operating Income	<u>\$ 2,770,122</u>	<u>\$ 174,682</u>
 <u>Operating Expenses</u>		
Administration	\$ 603,072	\$ 57,697
Tenant services	8,514	0
Utilities	258,507	1,929
Ordinary maintenance and operation	458,290	14,624
General expense	155,701	8,506
Extraordinary maintenance	13,774	94,650
Casualty losses - non capitalized	802	0
Depreciation	903,975	34,438
Housing assistance payments	<u>1,122,533</u>	<u>0</u>
Total Operating Expenses	<u>\$ 3,525,168</u>	<u>\$ 211,844</u>
Net Operating Income (Loss)	<u>\$ -755,046</u>	<u>\$ -37,162</u>
 <u>Nonoperating Income (Expense)</u>		
HUD grants - capital	\$ 333,007	\$ 0
Interest expense	-13,900	-25,166
Interest income	20,399	4,235
Donations	0	50,000
Transfers	<u>-2,457,859</u>	<u>2,457,859</u>
Total Nonoperating Income	<u>\$ -2,118,353</u>	<u>\$ 2,486,928</u>
Changes in net assets	\$ -2,873,399	\$ 2,449,766
Net assets, beginning of year	8,386,575	0
Prior period adjustments	<u>14,105</u>	<u>0</u>
Net assets, end of year	<u>\$ 5,527,281</u>	<u>\$ 2,449,766</u>

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

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Activities</u>	Proprietary Funds	Component Unit
Operating grants	\$ 2,053,493	\$ 0
Dwelling rental	500,333	109,711
Other revenue	129,319	14,135
Housing assistance payments	-1,122,533	0
Payments to employees	-591,815	-3,346
Payments to suppliers and contractors	<u>-785,700</u>	<u>-125,905</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 183,097</u>	<u>\$ -5,405</u>
 <u>Investing Activities</u>		
(Additions) deletions to fixed assets	\$ -649,388	\$ -2,771
Gain (loss) on sale of fixed assets	4,965	9,000
Investments (purchased) redeemed	594,063	-544,237
Interest income	20,399	4,235
Casualty losses - non capitalized	<u>-802</u>	<u>0</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -30,763</u>	<u>\$ -533,773</u>
 <u>Financing Activities</u>		
HUD grants - capital	\$ 333,007	\$ 0
Interest expense	-13,900	-25,166
Issuance of debt	0	752,273
Retirement of debt	-637,147	0
Donations	<u>0</u>	<u>50,000</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ -318,040</u>	<u>\$ 777,107</u>
Net Change in Cash	\$ -165,706	\$ 237,929
Cash Balance at September 30, 2004	<u>824,585</u>	<u>0</u>
Cash Balance at September 30, 2005	<u>\$ 659,362</u>	<u>\$ 237,929</u>

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

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	Proprietary Funds	Component Unit
Net operating income (loss)	\$ -755,046	\$ -37,162
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	903,975	34,438
Adjustments to net assets	14,105	0
(Increase) decrease in accounts receivable	-48,717	-4,871
(Increase) decrease in deferred charges	99,234	-125,742
(Increase) decrease in inventory	9,864	0
Increase (decrease) in accounts payable	-23,298	89,451
Increase (decrease) in accrued liabilities	6,209	404
Increase (decrease) in deferred revenues	-14,153	48,887
Increase (decrease) in other liabilities	<u>-9,076</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 183,097</u>	<u>\$ 5,405</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, 2005**

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.

MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA

NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)

Note 1 - Summary of Significant Accounting Policies

(b) Component Unit - 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 shall be 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.

During the fiscal year, all of the assets and related liabilities owned and operated as a business activity of the PHA were transferred into the component unit.

(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.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(d) 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
- * Section 8 Choice Vouchers
- * Section 8 New Construction
- * Capital Fund Program
- * Business Activities
- * Michigan City Housing Development, Inc.

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.

(e) 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.

(f) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at September 30, 2005, 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.

(g) Inventories and Materials -

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Investments -

Investments are stated at cost which approximates market.

(i) 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

(j) Income Tax -

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(k) 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.

(l) 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.

(m) 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, 2005
(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	\$ 481,208	\$ 537,607
Voucher	178,154	193,554
Michigan City Housing Development	<u>237,929</u>	<u>237,929</u>
Total	<u>\$ 897,291</u>	<u>\$ 969,090</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	\$ 480,437	\$ 480,437
Michigan City Housing Development	<u>544,237</u>	<u>544,237</u>
Total	<u>\$ 1,024,674</u>	<u>\$ 1,024,674</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(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 \$49,843 for the year ended September 30, 2005.

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	\$ 24,824	\$ 0	\$ 0
Other	77	0	19,114
HUD	170,789	211,809	0
Allowance for doubtful accounts	<u>-5,782</u>	<u>0</u>	<u>0</u>
Subtotal	\$ 189,908	\$ 211,809	\$ 19,114
Interfund	<u>294,389</u>	<u>0</u>	<u>4,049</u>
Total	<u>\$ 484,297</u>	<u>\$ 211,809</u>	<u>\$ 23,163</u>
	<u>New</u>		
	<u>Construction</u>	<u>MCHD</u>	<u>Total</u>
Tenants accounts receivable	\$ 0	\$ 5,182	\$ 30,006
Other	0	0	19,191
HUD	0	0	382,598
Allowance for doubtful accounts	<u>0</u>	<u>-311</u>	<u>-6,093</u>
Subtotal	\$ 0	\$ 4,871	\$ 425,702
Interfund	<u>62,869</u>	<u>0</u>	<u>361,307</u>
Total	<u>\$ 62,869</u>	<u>\$ 4,871</u>	<u>\$ 787,009</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 6 - Investments

At September 30, 2005 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Money market account	0.9%	\$ 478,437	\$ 478,437
Certificate of deposit	2.0%	<u>2,000</u>	<u>2,000</u>
 <u>MCHD</u>			
Money market account	1.0%	<u>\$ 544,237</u>	<u>\$ 544,237</u>
Total		<u>\$ 1,024,674</u>	<u>\$ 1,024,674</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

	<u>Low Rent</u>	<u>Voucher</u>	<u>MCHD</u>	<u>Total</u>
Prepaid insurance	\$ 19,027	\$ 3,311	\$ 1,315	\$ 23,653
Other	<u>2,514</u>	<u>999</u>	<u>124,427</u>	<u>127,940</u>
Total	<u>\$ 21,541</u>	<u>\$ 4,310</u>	<u>\$ 125,742</u>	<u>\$ 151,593</u>

Note 8 - Fixed Assets

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance as of September 30, 2005	\$ 3,307,586	\$ 715,921	\$ 26,550
Balance as of September 30, 2004	<u>3,711,325</u>	<u>831,590</u>	<u>34,111</u>
Net Increase (Decrease)	<u>\$ -403,739</u>	<u>\$ -115,669</u>	<u>\$ -7,561</u>
	<u>Business Activities</u>	<u>MCHD</u>	<u>Total</u>
Balance as of September 30, 2005	\$ 0	\$ 2,428,002	\$ 6,478,059
Balance as of September 30, 2004	<u>2,190,122</u>	<u>0</u>	<u>6,767,148</u>
Net Increase (Decrease)	<u>\$ -2,190,122</u>	<u>\$ 2,428,002</u>	<u>\$ -289,089</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 8 - Fixed Assets (Continued)

<u>Reconciliation</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Property betterments and additions	\$ 13,637	\$ 332,847	\$ 299
Loss from disposal of non-expendable property	-4,314	0	0
Adjustment to basis	160	0	0
Transfer in/out	405,447	-405,447	0
Current year depreciation expense	<u>-818,609</u>	<u>-43,069</u>	<u>-7,860</u>
Net Increase (Decrease)	<u>\$ -403,739</u>	<u>\$ -115,669</u>	<u>\$ -7,561</u>

	<u>Business Activities</u>	<u>MCHD</u>	<u>Total</u>
Property betterments and additions	\$ 0	\$ 306,755	\$ 653,538
Loss from disposal of non-expendable property	0	0	-4,314
Adjustment to basis	0	0	160
Transfer in/out	-2,155,685	2,155,685	0
Current year depreciation expense	<u>-34,437</u>	<u>-34,438</u>	<u>-938,413</u>
Net Increase (Decrease)	<u>\$ -2,190,122</u>	<u>\$ 2,428,002</u>	<u>\$ -289,089</u>

<u>Analysis</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 436,306	\$ 41,100	\$ 862	\$ 476,544
Buildings	14,851,542	275,648	22,176	15,105,014
Equipment and furniture	760,448	3,942	2,350	762,040
Leasehold improvements	915,991	0	1	915,990
Construction in progress	<u>46,596</u>	<u>301,413</u>	<u>0</u>	<u>348,009</u>
Total	\$ 17,010,883	\$ 622,103	\$ 25,389	\$ 17,607,597
Accumulated depreciation	<u>-10,243,734</u>	<u>-938,413</u>	<u>-52,609</u>	<u>-11,129,538</u>
Total	<u>\$ 6,767,149</u>	<u>\$ -316,310</u>	<u>\$ -27,220</u>	<u>\$ 6,478,059</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 9 - Notes Receivable

This classification includes the following accounts:

	<u>Low Rent</u>
Mortgage receivable	\$ <u>9,664</u>

Note 10 - Accounts Payable

This classification includes the following accounts:

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Vendors and contractors	\$ 37,897	\$ 0	\$ 0
Other	0	0	8,479
Tenants security deposits	17,570	0	0
Accounts payable - HUD	0	0	6,308
Payroll deductions	<u>969</u>	<u>0</u>	<u>0</u>
Subtotal	\$ 56,436	\$ 0	\$ 14,787
Interfund	<u>480</u>	<u>211,809</u>	<u>76,111</u>
Total	<u>\$ 56,916</u>	<u>\$ 211,809</u>	<u>\$ 90,898</u>

	<u>New Construction</u>	<u>Business Activities</u>	<u>MCHD</u>	<u>Total</u>
Vendors and contractors	\$ 0	\$ 0	\$ 0	\$ 37,897
Other	0	0	0	8,479
Tenants security deposits	0	0	16,544	34,114
Accounts payable - HUD	12,344	0	0	18,652
Payroll deductions	<u>0</u>	<u>0</u>	<u>0</u>	<u>969</u>
Subtotal	\$ 12,344	\$ 0	\$ 16,544	\$ 100,111
Interfund	<u>0</u>	<u>0</u>	<u>72,907</u>	<u>361,307</u>
Total	<u>\$ 12,344</u>	<u>\$ 0</u>	<u>\$ 89,451</u>	<u>\$ 461,418</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

	<u>Low Rent</u>	<u>Voucher</u>	<u>New Construction</u>
Current Portion:			
Accrued salaries/wages	\$ 8,283	\$ 1,446	\$ 3,369
Accrued payroll taxes	1,019	0	0
Accrued compensated absences	<u>20,624</u>	<u>3,427</u>	<u>0</u>
Subtotal Current	\$ 29,926	\$ 4,873	\$ 3,369
Accrued compensated absences	<u>27,487</u>	<u>5,703</u>	<u>0</u>
Total	<u>\$ 57,413</u>	<u>\$ 10,576</u>	<u>\$ 3,369</u>

	<u>MCHD</u>	<u>Total</u>
Current Portion:		
Accrued salaries/wages	\$ 404	\$ 13,502
Accrued payroll taxes	0	1,019
Accrued compensated absences	<u>0</u>	<u>24,051</u>
Subtotal Current	\$ 404	\$ 38,572
Accrued compensated absences	<u>0</u>	<u>33,190</u>
Total	<u>\$ 404</u>	<u>\$ 71,762</u>

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

	<u>Low Rent</u>
Homebuyers ownership reserve	\$ 16,312
Homebuyers nonroutine maintenance reserve	<u>29,563</u>
Total	<u>\$ 45,875</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

Note 13 - Deferred Revenue

This classification consists of the following accounts:

	<u>Low Rent</u>	<u>MCHD</u>	<u>Total</u>
Tenants prepaid rent	\$ 4,820	\$ 561	\$ 5,381
Investment income - homebuyers ownership reserve - unapplied	891	0	891
Other deferred credits	<u>32</u>	<u>48,326</u>	<u>48,358</u>
Total	<u>\$ 5,743</u>	<u>\$ 48,887</u>	<u>\$ 54,630</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	6.75%	08/26/06	<u>\$ 752,273</u>	<u>\$ 0</u>	<u>\$ 752,273</u>

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

<u>Due Fiscal Year Ending</u>	<u>MCHD</u>
2006	<u>\$ 752,273</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005
(CONTINUED)**

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 \$39.82 from October through December and \$41.13 from January through September for the first 600 units under HAP contract.

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.

Note 18 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

HUD settlement - Voucher	\$	13,590
HUD settlement - New Construction		515
Total	\$	14,105

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 (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, 2005**

<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 09/30/05	\$ 683,155	\$ 683,155	\$ 683,155
Public Housing - Capital Fund*	14.872	C-933	FYE 09/30/05	\$ 1,374,904	\$ 433,197	\$ 433,197
Lower Income Housing Assistance Program - New Construction	14.182	C-2062	FYE 09/30/05	\$ 23,961	\$ 23,961	\$ 23,961
Housing Choice Voucher Program*	14.871	C-2057V	FYE 09/30/05	\$ 1,267,389	\$ 1,267,389	\$ 1,267,389
Total Housing Assistance				\$ 3,349,409	\$ 2,407,702	\$ 2,407,702

*Denotes major program.

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

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

ASSETS

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 481,208	\$ 0	\$ 178,154
Accounts receivable	484,297	211,809	23,163
Notes receivable	9,664	0	0
Investments	480,437	0	0
Inventory	14,715	0	0
Deferred charges	<u>21,541</u>	<u>0</u>	<u>4,310</u>
 Total Current Assets	 <u>\$ 1,491,862</u>	 <u>\$ 211,809</u>	 <u>\$ 205,627</u>
 CAPITAL ASSETS			
Land, buildings and equipment	\$ 14,023,115	\$ 840,461	\$ 69,185
Less: Accumulated depreciation	<u>-10,715,529</u>	<u>-44,050</u>	<u>-42,635</u>
 Net Capital Assets	 <u>\$ 3,307,586</u>	 <u>\$ 715,921</u>	 <u>\$ 26,550</u>
 Total Assets	 <u>\$ 4,799,448</u>	 <u>\$ 927,730</u>	 <u>\$ 232,177</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 56,916	\$ 211,809	\$ 90,898
Accrued liabilities	29,926	0	4,873
Trust and deposit liabilities	45,875	0	0
Deferred revenue	<u>5,743</u>	<u>0</u>	<u>0</u>
 Total Current Liabilities	 <u>\$ 138,460</u>	 <u>\$ 211,809</u>	 <u>\$ 95,771</u>

NONCURRENT LIABILITIES

Accrued liabilities	<u>\$ 27,487</u>	<u>\$ 0</u>	<u>\$ 5,703</u>
 Total Noncurrent Liabilities	 <u>\$ 27,487</u>	 <u>\$ 0</u>	 <u>\$ 5,703</u>

NET ASSETS

Invested in capital assets	\$ 3,307,586	\$ 715,921	\$ 26,550
Unrestricted	<u>1,325,815</u>	<u>0</u>	<u>104,153</u>
 Total Net Assets	 <u>\$ 4,633,501</u>	 <u>\$ 715,921</u>	 <u>\$ 130,703</u>

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

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

ASSETS

	<u>New</u> <u>Construction</u>	<u>Business</u> <u>Activities</u>
CURRENT ASSETS		
Cash	\$ 0	\$ 0
Accounts receivable	62,869	0
Investments	0	0
Deferred charges	<u>0</u>	<u>0</u>
Total Current Assets	<u>\$ 62,869</u>	<u>\$ 0</u>
CAPITAL ASSETS		
Land, buildings and equipment	\$ 2,040	\$ 0
Less: Accumulated depreciation	<u>-2,040</u>	<u>0</u>
Net Capital Assets	<u>\$ 0</u>	<u>\$ 0</u>
Total Assets	<u>\$ 62,869</u>	<u>\$ 0</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 12,344	\$ 0
Accrued liabilities	3,369	0
Notes payable	0	0
Deferred credits	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 15,713</u>	<u>\$ 0</u>

NET ASSETS

Invested in capital assets	\$ 0	\$ 0
Unrestricted	<u>47,156</u>	<u>0</u>
Total Net Assets	<u>\$ 47,156</u>	<u>\$ 0</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Dwelling rental	\$ 460,949	\$ 0	\$ 0
Excess utilities	44,050	0	0
Nondwelling rental	<u>250</u>	<u>0</u>	<u>0</u>
Total Rental Income	\$ 505,249	\$ 0	\$ 0
HUD grants - operating	683,155	100,190	1,267,389
Other revenue	71,022	0	7,493
Gain (loss) on fixed assets	<u>3,940</u>	<u>0</u>	<u>1,025</u>
Total Operating Income	<u>\$ 1,263,366</u>	<u>\$ 100,190</u>	<u>\$ 1,275,907</u>
 <u>Operating Expenses</u>			
Administration	\$ 402,427	\$ 35,833	\$ 157,241
Tenant services	3,842	4,672	0
Utilities	256,715	0	0
Ordinary maintenance and operation	453,638	0	0
General expense	112,993	21,166	15,997
Extraordinary maintenance	12,241	0	0
Casualty losses - non capitalized	802	0	0
Depreciation	818,609	43,069	7,860
Housing assistance payments	<u>0</u>	<u>0</u>	<u>1,099,087</u>
Total Operating Expenses	<u>\$ 2,061,267</u>	<u>\$ 104,740</u>	<u>\$ 1,280,185</u>
Net Operating Income (Loss)	<u>\$ -797,901</u>	<u>\$ -4,550</u>	<u>\$ -5,303</u>
 <u>Nonoperating Income (Expense)</u>			
HUD grant - capital	\$ 0	\$ 333,007	\$ 0
Interest income	12,781	0	2,853
Transfer	<u>38,519</u>	<u>-38,519</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ 51,300</u>	<u>\$ 294,488</u>	<u>\$ 2,853</u>
Changes in Net Assets	<u>\$ -746,601</u>	<u>\$ 289,938</u>	<u>\$ -1,425</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Income</u>	New <u>Construction</u>	Business <u>Activities</u>
Dwelling rental	\$ 0	\$ 105,215
Other tenant revenue	<u>0</u>	<u>1,483</u>
Total Rental Income	\$ 0	\$ 106,698
HUD grants - operating	23,961	0
Other revenue	0	0
Gain (loss) on sale of fixed assets	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 23,961</u>	<u>\$ 106,698</u>
 <u>Operating Expenses</u>		
Administration	\$ 1,011	\$ 6,560
Utilities	0	1,792
Ordinary maintenance and operation	2,934	1,718
General expense	42	5,503
Nonroutine maintenance	0	1,533
Depreciation	0	34,437
Housing assistance payments	<u>23,446</u>	<u>0</u>
Total Operating Expenses	<u>\$ 27,433</u>	<u>\$ 51,543</u>
Net Operating Income (Loss)	<u>\$ -3,472</u>	<u>\$ 55,155</u>
 <u>Nonoperating Income (Expense)</u>		
Interest expense	\$ 0	\$ -13,900
Interest income	1,614	3,151
Transfer	0	-2,457,859
Transfer grant	<u>0</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ 1,614</u>	<u>\$ -2,468,608</u>
Changes in Net Assets	<u><u>\$ -1,858</u></u>	<u><u>\$ -2,413,453</u></u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at September 30, 2004	\$ 3,711,325	\$ 0	\$ 34,111
Current year net income (loss)	-809,186	289,938	-7,561
Transfer of completed CFP	<u>405,447</u>	<u>-405,607</u>	<u>0</u>
Balance at September 30, 2005	<u>\$ 3,307,586</u>	<u>\$ 715,921</u>	<u>\$ 26,550</u>
 <u>Unrestricted</u>			
Balance at September 30, 2004	\$ 1,263,170	\$ 0	\$ 84,428
Current year net income (loss)	62,585	0	6,136
Transfer of completed CFP	160	0	0
Prior period adjustments	<u>0</u>	<u>0</u>	<u>13,589</u>
Balance at September 30, 2005	<u>\$ 1,325,915</u>	<u>\$ 0</u>	<u>\$ 104,153</u>
Total Net Assets	<u><u>\$ 4,633,501</u></u>	<u><u>\$ 715,921</u></u>	<u><u>\$ 130,703</u></u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Invested in Capital Assets</u>	New <u>Construction</u>	Business <u>Activities</u>
Balance at September 30, 2004	\$ 0	\$ 1,552,976
Current year net income (loss)	<u>0</u>	<u>-1,552,976</u>
Balance at September 30, 2005	<u>\$ 0</u>	<u>\$ 1,552,976</u>
 <u>Unrestricted</u>		
Balance at September 30, 2004	\$ 48,498	\$ 860,477
Current year net income (loss)	-1,858	-860,477
Prior period adjustments	<u>516</u>	<u>0</u>
Balance at September 30, 2005	<u>\$ 47,156</u>	<u>\$ 0</u>
Total Net Assets	<u>\$ 47,156</u>	<u>\$ 0</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 683,153	\$ 100,190	\$ 1,267,389
Dwelling rental	498,242	0	0
Other revenue	71,022	0	21,082
Housing assistance payments	0	0	-1,099,087
Payments to employees	-582,971	-19,264	-118,108
Payments to suppliers and contractors	<u>-750,750</u>	<u>-42,407</u>	<u>-5,428</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -81,302</u>	<u>\$ 38,519</u>	<u>\$ 65,848</u>
 <u>Investing Activities</u>			
(Additions) deletions to fixed assets	\$ -11,986	\$ -333,007	\$ -299
Gain (loss) on sale of fixed assets	3,940	0	1,025
Investments (purchased) redeemed	-3,562	0	0
Interest income	12,781	0	2,853
Casualty losses	<u>802</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 371</u>	<u>\$ -333,007</u>	<u>\$ 3,579</u>
 <u>Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 333,007	\$ 0
Retirement of debt	0	0	0
Transfer	<u>38,519</u>	<u>-38,519</u>	<u>0</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ 38,519</u>	<u>\$ 294,488</u>	<u>\$ 0</u>
Net Change in Cash	\$ -42,412	\$ 0	\$ 69,427
Cash Balance at September 30, 2004	<u>523,620</u>	<u>0</u>	<u>108,727</u>
Cash Balance at September 30, 2005	<u>\$ 481,208</u>	<u>\$ 0</u>	<u>\$ 178,154</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -801,039	\$ -4,550	\$ -5,303
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	818,609	43,069	7,860
Adjustments to net assets	0	0	13,589
(Increase) decrease in accounts receivable	-86,759	-100,118	57,784
(Increase) decrease in deferred charges	8,018	0	-982
(Increase) decrease in other assets	9,874	0	0
Increase (decrease) in accounts payable	-25,051	100,118	-9,626
Increase (decrease) in accrued liabilities	1,742	0	2,526
Increase (decrease) in deferred revenues	2,380	0	0
Increase (decrease) in other liabilities	<u>-9,076</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -81,302</u>	<u>\$ 38,519</u>	<u>\$ 65,848</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Operating Activities</u>	<u>New Construction</u>	<u>Business Activities</u>
Operating grants	\$ 23,961	\$ 0
Dwelling rental	0	75,695
Other revenue	0	0
Housing assistance payments	-23,446	0
Payments to employees	-524	0
Payments to suppliers and contractors	<u>-1,605</u>	<u>84,511</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -1,614</u>	<u>\$ 160,206</u>
 <u>Investing Activities</u>		
(Additions) deletions to fixed assets	\$ 0	\$ 2,155,686
Gain (loss) on sale of fixed assets	0	0
Investments (purchased) redeemed	0	597,625
Investment income	<u>1,614</u>	<u>3,151</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,614</u>	<u>\$ 2,756,462</u>
 <u>Financing Activities</u>		
Interest expense	\$ 0	\$ -13,900
Issuance of debt	0	0
Retirement of debt	0	-637,147
Transfer	0	-2,457,859
Transfer grant	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 0</u>	<u>\$ -3,108,906</u>
Net Change in Cash	\$ 0	\$ -192,238
Cash Balance at September 30, 2004	<u>0</u>	<u>192,238</u>
Cash Balance at September 30, 2005	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2005**

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	<u>New Construction</u>	<u>Business Activities</u>
Net operating income (loss)	\$ -3,472	\$ 55,155
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	0	34,437
Adjustment to net assets	516	0
(Increase) decrease in accounts receivable	-1,240	49,087
(Increase) decrease in deferred charges	0	92,198
Increase (decrease) in accounts payable	-87	-54,138
Increase (decrease) in accrued liabilities	2,669	0
Increase (decrease) in deferred revenues	<u>0</u>	<u>-16,533</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -1,614</u>	<u>\$ 160,206</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P0190501-02**

1. The Actual Modernization Costs of Phase IN36P0190501-02 are as follows:

Funds approved	\$ 457,448
Funds expended	<u>457,448</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 457,448
Funds expended	<u>457,448</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, date November 30, 2005, 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, 2005, and have issued my report thereon dated May 17, 2006. 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 17, 2006


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, 2005. 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, 2005. 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, 2005, and have issued my report hereon dated May 17, 2006. 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 17, 2006


Certified Public Accountant

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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
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, 2004 contained no findings.

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

CURRENT FINDINGS AND RECOMMENDATIONS

There were no audit findings discussed with Lenda Wilson, Interim Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held May 17, 2006.

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

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2005**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Accrued wages	2135	\$ 5,220.65		2135
Administrative salaries	4110		\$ 2,218.49	2806
Maintenance wages	4410		3,002.16	2806
(To allocate accrued wages through programs)				
(2)				
Garbage removal	4431	\$ 600.00		2806
Legal expenses	4130	1,254.42		2806
Maintenance materials	4420	4,024.74		2806
Accounts payable - vendors	2111		\$ 5,879.16	2111
(To record additional vendor payable to books)				
<u>Voucher</u>				
(1)				
Accounts payable - other	2119	\$ 1,384.58	\$ 1,384.58	2119
Accounts receivable - other	1129	4,172.52	4,172.52	1129
Unrestricted retained earnings	2806	2,787.94		2806
Housing assistance payments	4715.9		2,787.94	2806
(To record prior year adjusting journal entry #1, not previously posted - PHA's JV2129)				
(2)				
Administrative salaries	4110	\$ 1,446.84		2806
Accrued wages	2135		\$ 1,446.84	2135
(To accrue wages that were paid after year end)				
(1)				
Accounts receivable	1129	\$ 33,326.25		1129
Deferred revenue	----		\$ 33,326.25	----
(To correct posting of revenues received for 1201 Salem House)				
(2)				
Work in process	1255	\$ 70,296.92		1255
Accounts receivable	1129		\$ 70,296.92	1129
(To correct accounts receivable for work done on building)				
(3)				
Administrative salaries	4110	\$ 336.17		2806
Maintenance salaries	4410	68.16		2806
Accrued wages	2135		\$ 404.33	2135
(To accrue wages paid after year end)				

PHA: IN019 FYED: 09/30/2005

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	Component Units	Total
111	Cash - Unrestricted	\$0	\$0	\$481,208	\$178,154	\$0	\$237,929	\$897,291
100	Total Cash	\$0	\$0	\$481,208	\$178,154	\$0	\$237,929	\$897,291
121	Accounts Receivable - PHA Projects	\$0	\$0	\$0	\$19,114	\$0	\$0	\$19,114
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$170,789	\$0	\$211,809	\$0	\$382,598
125	Accounts Receivable - Miscellaneous	\$0	\$0	\$77	\$0	\$0	\$0	\$77
126	Accounts Receivable - Tenants - Dwelling Rents	\$0	\$0	\$24,824	\$0	\$0	\$5,182	\$30,006
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$-5,096	\$0	\$0	\$-311	\$-5,407
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$-686	\$0	\$0	\$0	\$-686
127	Notes, Loans, & Mortgages Receivable - Current	\$0	\$0	\$9,664	\$0	\$0	\$0	\$9,664
120	Total Receivables, net of allowances for doubtful accounts	\$0	\$0	\$199,572	\$19,114	\$211,809	\$4,871	\$435,366
131	Investments - Unrestricted	\$0	\$0	\$480,437	\$0	\$0	\$544,237	\$1,024,674
142	Prepaid Expenses and Other Assets	\$0	\$0	\$21,541	\$4,310	\$0	\$125,742	\$151,593
143	Inventories	\$0	\$0	\$14,715	\$0	\$0	\$0	\$14,715
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$62,869	\$294,389	\$4,049	\$0	\$0	\$361,307
150	Total Current Assets	\$0	\$62,869	\$1,491,862	\$205,627	\$211,809	\$912,779	\$2,884,946
161	Land	\$0	\$0	\$372,548	\$0	\$0	\$103,996	\$476,544
162	Buildings	\$0	\$0	\$12,128,010	\$394	\$376,299	\$2,600,311	\$15,105,014
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$185,043	\$0	\$0	\$5,007	\$190,050
164	Furniture, Equipment & Machinery - Administration	\$0	\$2,040	\$439,680	\$68,791	\$35,663	\$25,816	\$571,990
165	Leasehold Improvements	\$0	\$0	\$897,834	\$0	\$0	\$18,156	\$915,990
166	Accumulated Depreciation	\$0	\$-2,040	\$-10,715,529	\$-42,635	\$-44,050	\$-325,284	\$-11,129,538
167	Construction In Progress	\$0	\$0	\$0	\$0	\$348,009	\$0	\$348,009
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$0	\$3,307,586	\$26,550	\$715,921	\$2,428,002	\$6,478,059
180	Total Non-Current Assets	\$0	\$0	\$3,307,586	\$26,550	\$715,921	\$2,428,002	\$6,478,059
190	Total Assets	\$0	\$62,869	\$4,799,448	\$232,177	\$927,730	\$3,340,781	\$9,363,005

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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	Component Units	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$37,897	\$0	\$0	\$0	\$37,897
321	Accrued Wage/Payroll Taxes Payable	\$0	\$3,369	\$10,271	\$1,446	\$0	\$404	\$15,490
322	Accrued Compensated Absences - Current Portion	\$0	\$0	\$20,624	\$3,427	\$0	\$0	\$24,051
331	Accounts Payable - HUD PHA Programs	\$0	\$12,344	\$0	\$6,308	\$0	\$0	\$18,652
332	Accounts Payable - PHA Projects	\$0	\$0	\$0	\$8,479	\$0	\$0	\$8,479
341	Tenant Security Deposits	\$0	\$0	\$17,570	\$0	\$0	\$16,544	\$34,114
342	Deferred Revenues	\$0	\$0	\$5,743	\$0	\$0	\$48,887	\$54,630
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$0	\$0	\$0	\$0	\$0	\$752,273	\$752,273
345	Other Current Liabilities	\$0	\$0	\$45,875	\$0	\$0	\$0	\$45,875
347	Interprogram Due To	\$0	\$0	\$480	\$76,111	\$211,809	\$72,907	\$361,307
310	Total Current Liabilities	\$0	\$15,713	\$138,460	\$95,771	\$211,809	\$891,015	\$1,352,768
354	Accrued Compensated Absences - Non Current	\$0	\$0	\$27,487	\$5,703	\$0	\$0	\$33,190
350	Total Noncurrent Liabilities	\$0	\$0	\$27,487	\$5,703	\$0	\$0	\$33,190
300	Total Liabilities	\$0	\$15,713	\$165,947	\$101,474	\$211,809	\$891,015	\$1,385,958
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$0	\$3,307,586	\$26,550	\$715,921	\$1,675,729	\$5,725,786
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$0	\$47,156	\$1,325,915	\$104,153	\$0	\$774,037	\$2,251,261
513	Total Equity/Net Assets	\$0	\$47,156	\$4,633,501	\$130,703	\$715,921	\$2,449,766	\$7,977,047
600	Total Liabilities and Equity/Net Assets	\$0	\$62,869	\$4,799,448	\$232,177	\$927,730	\$3,340,781	\$9,363,005

PHA: IN019 FYED: 09/30/2005

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	Component Units	Total
703	Net Tenant Rental Revenue	\$105,215	\$0	\$461,199	\$0	\$0	\$110,539	\$676,953
704	Tenant Revenue - Other	\$1,483	\$0	\$44,050	\$0	\$0	\$3,793	\$49,326
705	Total Tenant Revenue	\$106,698	\$0	\$505,249	\$0	\$0	\$114,332	\$726,279
706	HUD PHA Operating Grants	\$0	\$23,961	\$683,155	\$1,267,389	\$100,190	\$0	\$2,074,695
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$333,007	\$0	\$333,007
711	Investment Income - Unrestricted	\$3,151	\$1,614	\$12,781	\$2,853	\$0	\$4,235	\$24,634
715	Other Revenue	\$0	\$0	\$71,022	\$7,493	\$0	\$51,350	\$129,865
716	Gain/Loss on Sale of Fixed Assets	\$0	\$0	\$3,940	\$1,025	\$0	\$9,000	\$13,965
700	Total Revenue	\$109,849	\$25,575	\$1,276,147	\$1,278,760	\$433,197	\$178,917	\$3,302,445

PHA: IN019 FYED: 09/30/2005

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	Component Units	Total
911	Administrative Salaries	\$0	\$696	\$224,119	\$84,271	\$0	\$336	\$309,422
912	Auditing Fees	\$0	\$0	\$3,770	\$840	\$0	\$0	\$4,610
914	Compensated Absences	\$0	\$-700	\$8,295	\$1,080	\$0	\$0	\$8,675
915	Employee Benefit Contributions - Administrative	\$0	\$263	\$87,463	\$35,283	\$0	\$0	\$123,009
916	Other Operating - Administrative	\$6,560	\$752	\$78,780	\$35,767	\$35,833	\$57,361	\$215,053
924	Tenant Services - Other	\$0	\$0	\$3,842	\$0	\$4,672	\$0	\$8,514
931	Water	\$158	\$0	\$22,990	\$0	\$0	\$102	\$23,250
932	Electricity	\$737	\$0	\$83,835	\$0	\$0	\$433	\$85,005
933	Gas	\$617	\$0	\$102,249	\$0	\$0	\$1,044	\$103,910
938	Other Utilities Expense	\$280	\$0	\$47,641	\$0	\$0	\$350	\$48,271
941	Ordinary Maintenance and Operations - Labor	\$0	\$2,934	\$264,836	\$0	\$0	\$3,010	\$270,780
942	Ordinary Maintenance and Operations - Materials and Other	\$1,298	\$0	\$47,790	\$0	\$0	\$3,410	\$52,498
943	Ordinary Maintenance and Operations - Contract Costs	\$420	\$0	\$31,751	\$0	\$0	\$7,979	\$40,150
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$0	\$109,261	\$0	\$0	\$225	\$109,486
945	Protective Services - Labor	\$0	\$0	\$0	\$0	\$19,264	\$0	\$19,264
955	Employee Benefit Contributions - Protective Services	\$0	\$0	\$0	\$0	\$1,902	\$0	\$1,902
961	Insurance Premiums	\$5,225	\$42	\$65,924	\$13,617	\$0	\$5,411	\$90,219
962	Other General Expenses	\$0	\$0	\$34,713	\$2,380	\$0	\$0	\$37,093
963	Payments in Lieu of Taxes	\$278	\$0	\$591	\$0	\$0	\$2,784	\$3,653
964	Bad Debt - Tenant Rents	\$0	\$0	\$11,422	\$0	\$0	\$311	\$11,733
966	Bad Debt - Other	\$0	\$0	\$343	\$0	\$0	\$0	\$343
967	Interest Expense	\$13,900	\$0	\$0	\$0	\$0	\$25,166	\$39,066
969	Total Operating Expenses	\$29,473	\$3,987	\$1,229,615	\$173,238	\$61,671	\$107,922	\$1,605,906
970	Excess Operating Revenue over Operating Expenses	\$80,376	\$21,588	\$46,532	\$1,105,522	\$371,526	\$70,995	\$1,696,539
971	Extraordinary Maintenance	\$1,533	\$0	\$12,241	\$0	\$0	\$94,650	\$108,424
972	Casualty Losses - Non-Capitalized	\$0	\$0	\$802	\$0	\$0	\$0	\$802
973	Housing Assistance Payments	\$0	\$23,446	\$0	\$1,099,087	\$0	\$0	\$1,122,533
974	Depreciation Expense	\$34,437	\$0	\$818,609	\$7,860	\$43,069	\$34,438	\$938,413
900	Total Expenses	\$65,443	\$27,433	\$2,061,267	\$1,280,185	\$104,740	\$237,010	\$3,776,078
1001	Operating Transfers In	\$0	\$0	\$38,519	\$0	\$0	\$2,457,859	\$2,496,378
1002	Operating Transfers Out	\$-2,457,859	\$0	\$0	\$0	\$-38,519	\$0	\$-2,496,378
1003	Operating Transfers from/to Primary Government	\$0	\$0	\$0	\$0	\$0	\$50,000	\$50,000
1010	Total Other Financing Sources (Uses)	\$-2,457,859	\$0	\$38,519	\$0	\$-38,519	\$2,507,859	\$50,000
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-2,413,453	\$-1,858	\$-746,601	\$-1,425	\$289,938	\$2,449,766	\$-423,633

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	Component Units	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$2,413,453	\$48,498	\$4,974,495	\$118,539	\$631,590	\$0	\$8,386,575
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$516	\$405,607	\$13,589	\$-405,607	\$0	\$14,105
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$26,607	\$0	\$1,295,268	\$0	\$0	\$1,321,875
1114	Prorate Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$122,127	\$0	\$1	\$0	\$0	\$122,128
1116	Total Annual Contributions Available	\$0	\$148,734	\$0	\$1,295,269	\$0	\$0	\$1,444,003
1120	Unit Months Available	244	40	2,324	3,032	0	246	5,886
1121	Number of Unit Months Leased	234	40	2,250	2,932	0	237	5,713

Report Generated: 05/26/2006 12:15:23
 Date Submission Created: 04/17/2006