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STATE BOARD OF ACCOUNTS
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, 2006 to September 30, 2007. 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, 2007, 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.

We call your attention to the findings in the report. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

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

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

TWELVE MONTHS ENDED SEPTEMBER 30, 2007

**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 financial statements of Michigan City Housing Authority, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Michigan City Housing Authority, as of September 30, 2007 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 February 22, 2008, on my consideration of the Michigan City Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

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

Decatur, Illinois
February 22, 2008


Certified Public Accountant

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

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

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

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

FINANCIAL HIGHLIGHTS

- ❖ The Authority’s net assets reflect only a slight change in 2007. Since the Authority engages only in business-type activities, the decrease is all the categories of business-type net assets. Net Assets were \$4.6 million and \$4.8 million for 2007 and 2006 respectively.
- ❖ No business-type activities revenue for 2007.
- ❖ The total expenses of all Authority programs decreased by \$307,315 (or 10%). Total expenses were \$3.5 million and \$3.2 million for 2006 and 2007 respectively.
- ❖ The Authority had \$529,640 in Tenant Revenue, \$1,921,195 in HUD PHA Operating Grants and \$328,046 of HUD Capital Grants for the year ended September 30, 2007.
- ❖ Authority investments increased by \$23,278 (or 4%) during the year. Total investments on September 30, 2007 were \$637,871.

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, 2007.

❖ **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 programs consist exclusively of 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 programs 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 Programs

Business Type Programs

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, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

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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

	2007	2006	Variance	Percentage Change
Cash	670,903	948,566	(277,663)	-29.3%
Other Current Assets	1,037,762	744,135	293,627	39.5%
Capital Assets	3,054,353	3,339,215	(284,862)	-8.5%
Non Current Assets	0	0	0	0.0%
Total Assets	4,763,018	5,031,916	(268,898)	-5.3%
Current Liabilities	142,284	153,090	(10,806)	-7.1%
Long Term Liabilities	32,026	31,364	662	2.1%
Total Liabilities	174,310	184,454	(10,144)	-5.5%
Net Invested in Capital Assets	3,054,353	3,339,215	(284,862)	-8.5%
Restricted Net Assets	200,516	144,608	55,908	0.0%
Unrestricted Net Assets	1,333,839	1,363,639	(29,800)	-2.2%
Total Net Assets	4,588,708	4,847,462	(258,754)	-5.3%

Major Factors Affecting the Statement of Net Assets

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

Capital assets changed slightly, decreasing from \$3.3 million to \$3.0 million. The \$300,000 decrease is primarily attributable to the current year depreciation and amortization. For more detail see “Capital Assets and Debt Administration” below.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

Analysis of Entity Wide Revenues (Statement of Activities)

The Authority administers the following programs and the grants revenues generated from these programs during Fiscal Year Ending 2007 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$1,182,384
Section 8 Vouchers	\$1,296,635
Capital Fund Program	\$ 446,853

Statement of Change of Unrestricted Net Assets

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

TABLE 2

CHANGE OF UNRESTRICTED NET ASSESTS

Unrestricted Net Assets 09/30/06		\$ 1.4
Results of Operations	(.8)	
Adjustments:		
Depreciation (1)	.7	
Adjusted Results from Operations		(.1)
Unrestricted Net Assets 09/30/07		\$ 1.3

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

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

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

Statement of Revenues, Expenses and Changes in Net Assets

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

TABLE 3

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	2007	2006	Variance	Percentage Change
Total Tenant Revenue	529,640	510,484	19,156	3.8%
HUD Operating Grants	1,921,195	1,949,194	-27,999	-1.4%
HUD Capital Grants	328,046	143,201	184,845	129.1%
Other Grants	0	95,600	-95,600	0.0%
Investment Income	54,440	36,837	17,603	47.8%
Fraud Recovery	0	0	0	0.0%
Other Revenue	89,049	73,323	15,726	21.4%
Gain (Loss) on Sale of Fixed Assets	3,502	-2,419	5,921	-244.8%
Total Revenue	2,925,872	2,806,220	119,652	4.3%

	2007	2006	Variance	Percentage Change
Administrative	565,268	590,463	-25,195	-4.3%
Tenant Services	2,704	11,800	-9,096	-77.1%
Utilities	311,873	286,859	25,014	8.7%
Maintenance	388,540	462,495	-73,955	-16.0%
Protective Services	31,583	23,138	8,445	36.5%
General Expense	93,754	128,669	-34,915	-27.1%
Extraordinary Maintenance	6,246	98,396	-92,150	-93.7%
Housing Assistance Payments	1,109,911	1,069,715	40,196	3.8%
Depreciation Expense	674,747	820,406	-145,659	-17.8%
Total Expenses	3,184,626	3,491,941	-307,315	-8.8%

Major Factors Affecting the Change in Net Assets

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

While the Authority's Low Rent and Section 8 Programs incurred HUD funding cuts of over \$.4 million during the period, the Michigan City Housing Authority was creative in generating revenues through other sources.

Total expenses decreased \$300,000. This decrease was primarily due to the elimination of staff personal and 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, 2007

CAPITAL ASSETS AT YEAR END (NET OF DEPRECIATION)

As of year-end, the Authority had \$3.0 million invested in a variety of capital assets as reflected in the following table, which represents a net decrease (additions, deductions and depreciation) of \$.3 thousand from the prior year-end.

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

	2007	2006	Variance	Percentage Change
Land and land rights	367,457	368,422	965	0.3%
Building	13,135,297	12,768,188	-367,109	-2.9%
Equipment - Administrative	219,040	189,281	-29,759	-15.7%
Equipment Dwelling	560,136	558,373	-1,763	-0.3%
Leasehold Improvements	951,820	897,834	-53,986	-6.0%
Construction in Progress	52,710	169,350	116,640	68.9%
Total Fixed Assets	15,286,460	14,951,448	335,012	2.2%
Accumulated Depreciation	-12,232,107	-11,612,233	-619,874	5.3%
Net Fixed Assets	<u>3,054,353</u>	<u>3,339,215</u>	<u>-284,862</u>	<u>-8.5%</u>

Change in Capital Assets

The following reconciliation summarizes the change in Capital Assets:

TABLE 5
CHANGE IN CAPITAL ASSETS:

	<u>Business-Type Activities</u>
Beginning Balance	\$ 3,339,215
Additions	393,488
Retirements	(3,603)
Depreciation	<u>(674,747)</u>
Total	<u>\$ 3,054,353</u>

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

Capital Improvements	\$ 328,046
Equipment Purchases	\$ 17,650
Betterments and Additions	\$ 47,792

Debt Outstanding

As of year-end, the Authority had no outstanding debt.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

Overview of Budgets

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

Low Rent Public Housing Budgetary Highlights

Results of Operations

Management prepared a budget that anticipated a gain (before depreciation and transfers) of \$54,694. Actual results of operation reflected a loss of \$33,028.

Tenant Rental Revenues were \$46,612 over the budget. This variance can be mainly attributed to the successful efforts of management to maintain an average occupancy rate of 98.8%.

Other Revenues over the budget amount by \$17,144. The increase in revenue primarily resulted from interest income and soft cost grants, which were higher than initially estimated.

Operating Expenditures were over budgeted with overage of \$132,166 or 12% variance in the bottom line. In administration difference maintained with mandatory cut backs in travel and other expenses.

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

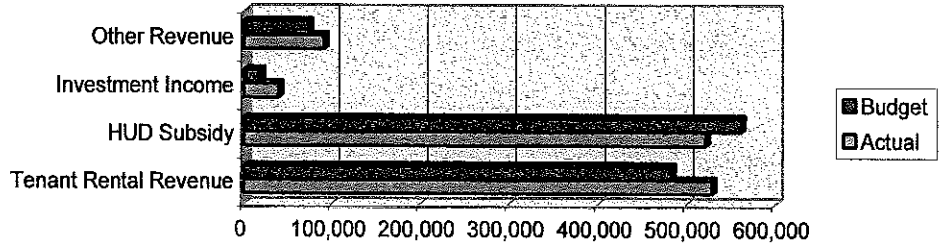
The following tables and graphs illustrate the Authority's effectiveness at estimating revenues and spending within budgeted parameters.

Comparison Budget vs. Actual – Low Rent Public Housing

	Budget	Actual	Variance	Percent Change
Tenant Revenue	483,028	529,640	-46,612	-9%
HUD Operating Grants	561,803	522,085	39,718	8%
HUD Capital Grants	0	0	0	0%
Investment Income	19,169	39,575	-20,406	-52%
Other Revenue	73,940	91,084	-17,144	-19%
Total Revenue	1,137,940	1,182,384	-44,444	-4%
Operating Expense				
Administrative	374,696	423,221	-48,525	-12%
Tenant Services	6,000	2,704	3,296	122%
Utilities	310,945	311,873	-928	0%
Maintenance	318,335	388,540	-70,205	-18%
General Expense	73,270	85,284	-12,014	-14%
Extraordinary Maintenance	0	6,246	-6,246	-100%
Casualty Losses	0	-2,456	2,456	0%
Total Expenses	1,083,246	1,215,412	-132,166	-11%
Net Income/(Loss) before depreciation	54,694	-33,028	87,722	160%

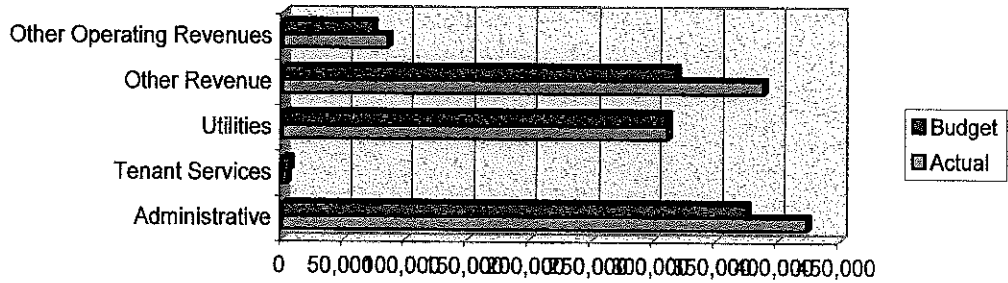
HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
 Year Ending September 30, 2007

Low Rent Public Housing
Budget vs. Actual Income



	Tenant Rent Revenue	HUD Subsidy	Investment Income	Other Revenue
Actual	529,640	522,085	39,575	91,084
Budget	483,028	561,803	19,169	73,940

Low Rent Public Housing
Budget vs. Actual Income



	Administrative	Tenant Services	Utilities	Maintenance	Other Operating Expenses
Actual	423,221	2,704	311,873	388,540	85,284
Budget	374,696	6,000	310,945	318,335	73,270

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
Year Ending September 30, 2007

Section 8 Voucher Program Budgetary Background

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

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

Section 8 Program Budgetary Highlights

The Authority received \$123,086 in Admin Fees, as illustrated in the table below. The Authority experienced an operating increase of \$59,880 (before depreciation).

Annual Contributions Required – Revenues

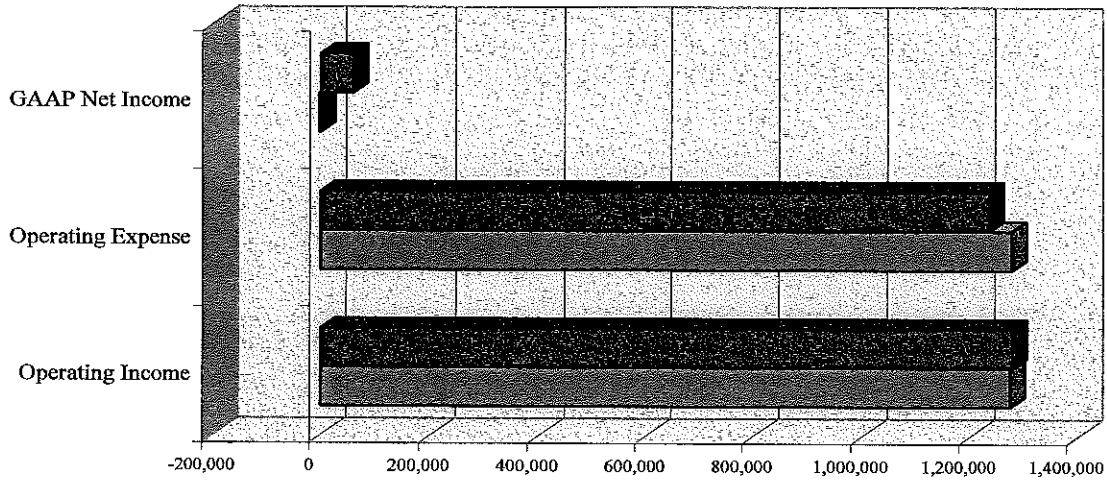
Housing Assistance Payments operated above expectations by \$8,902. This result suggests that the Authority leased almost the same number of units each month that was budgeted, when in fact, the amount of funds available from HUD was more than originally expected. Although there was the uncertainty and 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 within foreseeable parameters.

Comparison Budget vs Actual-Section 8 Housing Choice Voucher Program

	Budgeted	Actual	Variance
HUD A.C. Earned	\$1,148,315	\$1,157,217	(\$ 8,902)
Admin Fees Received	\$127,590	\$123,086	\$4,504
Interest Operating Reserve	\$0	\$6,263	(\$6,263)
Interest Income General Fund	\$0	\$8,602	(\$3,439)
Portable Admin Fees Earned	<u>\$0</u>	<u>\$1,467</u>	<u>(\$1,467)</u>
Total Operating Reserve	<u>\$1,275,905.00</u>	<u>\$1,296,635</u>	<u>(\$15,670)</u>
Operating Expenses:			
Routine Expenses	\$124,603	\$126,844	(\$2,241)
Housing Assistance Payments	\$1,154,0920	\$1,109,911	\$44,181
Other Operating Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	<u>\$1,278,695</u>	<u>\$1,236,755.00</u>	<u>(\$41,940.00)</u>
Budget vs. Actual Income (Loss)	<u>(\$2,790)</u>	<u>\$ 59,880</u>	<u>(\$57,610)</u>

HOUSING AUTHORITY OF MICHIGAN CITY, INDIANA
MANAGEMENT DISCUSSION AND ANALYSIS
 Year Ending September 30, 2007



	Operating Income	Operating Expense	GAAP Net Income
■ Actual	1,280,303	1,236,755	59,880
▣ Budget	1,275,905	1,278,695	(2,790)

FINANCIAL CONTACT

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

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

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2007**

ASSETS

CURRENT ASSETS

Cash	\$ 470,377
Accounts receivable	346,588
Accrued interest receivable	1,160
Notes receivable	545
Investments	637,871
Inventory	18,057
Deferred charges	<u>33,541</u>

Total Current Assets \$ 1,508,149

CAPITAL ASSETS

Land, buildings and equipment	\$ 15,286,460
Less: Accumulated depreciation	<u>-12,232,107</u>

Net Capital Assets \$ 3,054,353

RESTRICTED

Cash	\$ <u>200,516</u>
------	-------------------

Total Assets \$ 4,763,018

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 87,058
Accrued liabilities	32,103
Trust and deposit liabilities	21,896
Deferred revenues	<u>1,227</u>

Total Current Liabilities \$ 142,284

NONCURRENT LIABILITIES

Accrued liabilities	\$ <u>32,026</u>
---------------------	------------------

Total Noncurrent Liabilities \$ 32,026

NET ASSETS

Invested in capital assets	\$ 3,054,353
Restricted	200,516
Unrestricted	<u>1,333,839</u>

Total Net Assets \$ 4,588,708

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

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN ASSETS -
PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

Operating Income

Tenant rental revenue	\$ 492,704
Tenant revenue - other	<u>36,936</u>
Total Rental Income	\$ 529,640
HUD grants - operating	1,921,195
Other revenue	89,049
Gain (loss) on sale of fixed assets	<u>3,502</u>
Total Operating Income	<u>\$ 2,543,386</u>

Operating Expenses

Administration	\$ 565,268
Tenant services	2,704
Utilities	311,873
Ordinary maintenance and operation	388,540
Protective services	31,583
General expense	96,210
Extraordinary maintenance	6,246
Housing assistance payments	1,109,911
Depreciation	<u>674,747</u>
Total Operating Expenses	<u>\$ 3,187,082</u>
Net Operating Income (Loss)	<u>\$ -643,696</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 328,046
Interest income	54,440
Casualty losses	<u>2,456</u>
Total Nonoperating Income	<u>\$ 384,942</u>
Changes in net assets	\$ -258,754
Net assets, beginning of year	4,847,462
Prior period adjustments	<u>0</u>
Net assets, end of year	<u>\$ 4,588,708</u>

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

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

Operating Activities

Operating grants	\$ 1,671,866
Dwelling rental	544,876
Other revenue	92,551
Housing assistance payments	-1,109,911
Payments to employees	-531,373
Payments to suppliers and contractors	<u>-917,451</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -249,442</u>

Investing Activities

Investments (purchased) redeemed	\$ -23,278
Interest income	<u>54,440</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 31,162</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 328,046
(Additions) deletions to fixed assets	-389,885
Casualty losses	<u>2,456</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -59,383</u>

Net Change in Cash	\$ -277,663
Cash Balance at September 30, 2006	<u>948,566</u>
Cash Balance at September 30, 2007	<u>\$ 670,903</u>

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

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

Net operating income (loss)	\$ -643,696
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	674,747
(Increase) decrease in accounts receivable	-326,235
(Increase) decrease in deferred charges	8,156
(Increase) decrease in other assets	4,091
Increase (decrease) in accounts payable	61,733
Increase (decrease) in accrued liabilities	-463
Increase (decrease) in deferred revenues	-3,406
Increase (decrease) in other liabilities	<u>-24,369</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -249,442</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(b) Michigan City Housing Development, Inc. -

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

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

During the fiscal year, all of the assets and related liabilities owned and operated as a separate not-for-profit entity, Michigan City Housing Development, Inc. was removed from the financial statements of the Housing Authority.

(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, 2007
(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
- * Capital Fund Program

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, 2007, 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, 2007
(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, 2007
(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 Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted to the Board 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.

Custodial Credit Risk

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

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

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

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

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

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

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

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

Category 3 - Deposits which are not collateralized or insured.

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

<u>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 423,145	\$ 488,996
Voucher	<u>247,758</u>	<u>253,117</u>
Total	<u>\$ 670,903</u>	<u>\$ 742,113</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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

- Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.
- Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.
- Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

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

<u>Fund</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 534,154	\$ 534,154
Voucher	<u>103,717</u>	<u>103,717</u>
Total	<u>\$ 637,871</u>	<u>\$ 637,871</u>

Note 3 - Compensated Absences

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

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

Note 4 - Defined Contribution Plan

The Housing Authority provides a pension plan for eligible full time employees. The Authority's contribution to the plan is a percent of each employee's annual compensation, and the Authority accounts for pension cost as incurred. Pension contributions totaled \$39,714 for the year ended September 30, 2007.

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 10,668
Fraud recovery	2,471
Accounts receivable - HUD	279,492
Accounts receivable - other	<u>53,957</u>
Subtotal	\$ 346,588
Interfund	<u>108,794</u>
Total	<u>\$ 455,382</u>

Note 6 - Investments

At September 30, 2007 investments consist of the following:

<u>Low Rent</u>	<u>Rate</u>	<u>Cost</u>	<u>Fair Value</u>
Money market account	1.0%	\$ 532,154	\$ 532,154
Certificate of deposit	2.0%	<u>2,000</u>	<u>2,000</u>
Total		\$ 534,154	\$ 534,154
<u>Voucher</u>			
Certificate of deposit	3.93%	<u>103,717</u>	<u>103,717</u>
Total		<u>\$ 637,871</u>	<u>\$ 637,871</u>

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 19,512
Other	<u>14,029</u>
Total	<u>\$ 33,541</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 8 - Fixed Assets

Balance as of September 30, 2007	\$ 3,054,353
Balance as of September 30, 2006	<u>3,339,215</u>
Net Increase (Decrease)	<u>\$ -284,862</u>

Reconciliation

Property betterments and additions	\$ 393,488
Loss from disposal of non-expendable property	-3,603
Current year depreciation expense	<u>-674,747</u>
Net Increase (Decrease)	<u>\$ -284,862</u>

Analysis

	<u>10/01/2006 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>09/30/2007 Balance</u>
Land	\$ 368,422	\$ 0	\$ 965	\$ 367,457
Buildings	12,768,188	704,292	337,183	13,135,297
Equipment and furniture	747,654	65,895	34,373	779,176
Leasehold improvements	897,834	53,986	0	951,820
Construction in progress	<u>169,350</u>	<u>0</u>	<u>116,640</u>	<u>52,710</u>
Total	\$ 14,951,448	\$ 824,173	\$ 489,161	\$ 15,286,460
Accumulated depreciation	<u>-11,612,233</u>	<u>54,873</u>	<u>674,747</u>	<u>-12,232,107</u>
Total	<u>\$ 3,339,215</u>	<u>\$ 879,046</u>	<u>\$ 1,163,908</u>	<u>\$ 3,054,353</u>

Note 9 - Notes Receivable

This classification includes the following accounts:

Mortgage receivable	<u>\$ 545</u>
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**MICHIGAN CITY HOUSING AUTHORITY
MICHIGAN CITY, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 10 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 23,338
Tenants security deposits	34,800
Payroll withholding	4,829
Accounts payable - other	<u>24,091</u>
Subtotal	\$ 87,058
Interfund	<u>108,794</u>
Total	<u>\$ 195,852</u>

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

<u>Current Portion:</u>	
Accrued salaries/wages	\$ 11,606
Accrued payroll taxes	862
Accrued compensated absences	<u>19,635</u>
Total Current	\$ 32,103
<u>Noncurrent Portion:</u>	
Accrued compensated absences	<u>32,026</u>
Total	<u>\$ 64,129</u>

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

Homebuyers ownership reserve	\$ 15,878
Homebuyers nonroutine maintenance reserve	5,047
Investment income - Homebuyers ownership reserve - unapplied	<u>971</u>
Total	<u>\$ 21,896</u>

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

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007
(CONTINUED)**

Note 13 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ <u>1,227</u>
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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.

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 set by HUD on a calendar year basis.

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, 2007
(CONTINUED)**

Note 18 - 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 19 - Economic Dependency

The Housing Authority received most of its revenue (77%) 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, 2007**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850a	C-933	FYE 09/30/07	\$ 522,085	\$ 522,085	\$ 522,085
Public Housing - Capital Fund*	14.872	C-933	FYE 09/30/07	\$ 870,107	\$ 446,853	\$ 446,853
Housing Choice Voucher Program*	14.871	C-2057V	FYE 09/30/07	\$ 1,280,303	\$ 1,280,303	\$ 1,280,303
Total Housing Assistance				<u>\$ 2,672,495</u>	<u>\$ 2,249,241</u>	<u>\$ 2,249,241</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

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

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

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

ASSETS

	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 423,145	\$ 0	\$ 47,242
Accounts receivable	364,672	89,436	1,274
Accrued interest receivable	10	0	1,150
Notes receivable	545	0	0
Investments	534,154	0	103,717
Inventory	18,057	0	0
Deferred charges	<u>29,177</u>	<u>0</u>	<u>4,364</u>
 Total Current Assets	 <u>\$ 1,369,760</u>	 <u>\$ 89,436</u>	 <u>\$ 157,747</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 14,678,430	\$ 536,804	\$ 71,226
Less: Accumulated depreciation	<u>-12,146,100</u>	<u>-25,531</u>	<u>-60,476</u>
 Net Capital Assets	 <u>\$ 2,532,330</u>	 <u>\$ 511,273</u>	 <u>\$ 10,750</u>
RESTRICTED			
Cash	\$ <u>0</u>	\$ <u>0</u>	\$ <u>200,516</u>
 Total Assets	 <u>\$ 3,902,090</u>	 <u>\$ 600,709</u>	 <u>\$ 369,013</u>

LIABILITIES

CURRENT LIABILITIES			
Accounts payable	\$ 86,849	\$ 89,436	\$ 19,567
Accrued liabilities	31,646	0	457
Trust and deposit liabilities	21,896	0	0
Deferred revenue	<u>1,227</u>	<u>0</u>	<u>0</u>
 Total Current Liabilities	 <u>\$ 141,618</u>	 <u>\$ 89,436</u>	 <u>\$ 20,024</u>
NONCURRENT LIABILITIES			
Accrued liabilities	\$ <u>30,081</u>	\$ <u>0</u>	\$ <u>1,945</u>
 Total Noncurrent Liabilities	 <u>\$ 30,081</u>	 <u>\$ 0</u>	 <u>\$ 1,945</u>

NET ASSETS

Invested in capital assets	\$ 2,532,330	\$ 511,273	\$ 10,750
Restricted	0	0	200,516
Unrestricted	<u>1,198,061</u>	<u>0</u>	<u>135,778</u>
 Total Net Assets	 <u>\$ 3,730,391</u>	 <u>\$ 511,273</u>	 <u>\$ 347,044</u>

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

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant rental revenue	\$ 492,704	\$ 0	\$ 0
Tenant revenue - other	<u>36,936</u>	<u>0</u>	<u>0</u>
Total Rental Revenue	\$ 529,640	\$ 0	\$ 0
HUD grants - operating	522,085	118,807	1,280,303
Other revenue	87,582	0	1,467
Gain/loss on fixed assets	<u>3,502</u>	<u>0</u>	<u>0</u>
Total Operating Income	<u>\$ 1,142,809</u>	<u>\$ 118,807</u>	<u>\$ 1,281,770</u>
 <u>Operating Expenses</u>			
Administration	\$ 423,221	\$ 26,129	\$ 115,918
Tenant services	2,704	0	0
Utilities	311,873	0	0
Ordinary maintenance and operation	388,540	0	0
Protective services	0	31,583	0
General expense	85,284	0	10,926
Extraordinary maintenance	6,246	0	0
Housing assistance payments	0	0	1,109,911
Depreciation	<u>652,999</u>	<u>13,858</u>	<u>7,890</u>
Total Operating Expenses	<u>\$ 1,870,867</u>	<u>\$ 71,570</u>	<u>\$ 1,244,645</u>
Net Operating Income (Loss)	<u>\$ -728,058</u>	<u>\$ 47,237</u>	<u>\$ 37,125</u>
 <u>Nonoperating Income (Expense)</u>			
HUD grant - capital	\$ 0	\$ 328,046	\$ 0
Interest income	39,575	0	14,865
Casualty losses	2,456	0	0
Transfer	<u>61,095</u>	<u>-61,095</u>	<u>0</u>
Total Nonoperating Income (Expense)	<u>\$ 103,126</u>	<u>\$ 266,951</u>	<u>\$ 14,865</u>
Changes in Net Assets	<u>\$ -624,932</u>	<u>\$ 314,188</u>	<u>\$ 51,990</u>

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

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at September 30, 2006	\$ 2,834,362	\$ 486,213	\$ 18,640
Current year net income (loss)	-591,160	314,188	-7,890
Transfer	<u>289,128</u>	<u>-289,128</u>	<u>0</u>
Balance at September 30, 2007	<u>\$ 2,532,330</u>	<u>\$ 511,273</u>	<u>\$ 10,750</u>
 <u>Restricted</u>			
Balance at September 30, 2006	\$ 0	\$ 0	\$ 0
Current year net income (loss)	0	0	55,908
Transfer	<u>0</u>	<u>0</u>	<u>144,608</u>
Balance at September 30, 2007	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 200,516</u>
 <u>Unrestricted</u>			
Balance at September 30, 2006	\$ 1,231,833	\$ 0	\$ 276,414
Current year net income (loss)	-33,772	0	3,972
Transfer	<u>0</u>	<u>0</u>	<u>-144,608</u>
Balance at September 30, 2007	<u>\$ 1,198,061</u>	<u>\$ 0</u>	<u>\$ 135,778</u>
Total Net Assets	<u>\$ 3,730,391</u>	<u>\$ 511,273</u>	<u>\$ 347,044</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 332,029	\$ 59,534	\$ 1,280,303
Tenant revenue	544,876	0	0
Other revenue	91,084	0	1,467
Housing assistance payments	0	0	-1,109,911
Payments to employees	-446,365	-28,949	-56,059
Payments to suppliers and contractors	<u>-846,876</u>	<u>30,510</u>	<u>-101,085</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -325,252</u>	<u>\$ 61,095</u>	<u>\$ 14,715</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ -19,561	\$ 0	\$ -3,717
Interest income	<u>39,575</u>	<u>0</u>	<u>14,865</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 20,014</u>	<u>\$ 0</u>	<u>\$ 11,148</u>
 <u>Capital and Related Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 328,046	\$ 0
(Additions) deletions to fixed assets	-61,839	-328,046	0
Casualty losses	2,456	0	0
Transfer	<u>61,095</u>	<u>-61,095</u>	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 1,712</u>	<u>\$ -61,095</u>	<u>\$ 0</u>
Net Change in Cash	\$ -303,526	\$ 0	\$ 25,863
Cash Balance at September 30, 2006	<u>726,671</u>	<u>0</u>	<u>221,895</u>
Cash Balance at September 30, 2007	<u>\$ 423,145</u>	<u>\$ 0</u>	<u>\$ 247,758</u>

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

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

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)	\$ -728,058	\$ 47,237	\$ 37,125
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	652,999	13,858	7,890
(Increase) decrease in accounts receivable	-269,200	-59,273	2,238
(Increase) decrease in deferred charges	8,232	0	-76
(Increase) decrease in other assets	5,094	0	-1,003
Increase (decrease) in accounts payable	27,962	59,273	-25,502
Increase (decrease) in accrued liabilities	5,494	0	-5,957
Increase (decrease) in deferred revenues	-3,406	0	0
Increase (decrease) in other liabilities	<u>-24,369</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -325,252</u>	<u>\$ 61,095</u>	<u>\$ 14,715</u>

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P019501-04**

1. The Actual Modernization Costs of Phase IN36P019501-04 are as follows:

Funds approved	\$ 340,809
Funds expended	<u>340,809</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 340,809
Funds expended	<u>340,809</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 March 2, 2007, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

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

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P019501-05**

1. The Actual Modernization Costs of Phase IN36P019501-05 are as follows:

Funds approved	\$ 269,541
Funds expended	<u>269,541</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Project notes, non-HUD	\$ 269,541
Funds expended	<u>269,541</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 February 22, 2008, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

PAMELA J. SIMPSON, C.P.A.

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Commissioners
Michigan City Housing Authority
Michigan City, Indiana

I have audited the financial statements of the governmental activities of Michigan City Housing Authority as of and for the year ended September 30, 2007, which collectively comprise the Michigan City Housing Authority's basic financial statements and have issued my report thereon dated February 22, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

I noted certain matters that we reported to management of Michigan City Housing Authority, in a separate letter dated February 22, 2008.

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

Decatur, Illinois
February 22, 2008


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 on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Commissioners
Michigan City Housing Authority
Michigan City, Indiana

Compliance

I have audited the compliance of Michigan City Housing Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Michigan City Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Michigan City Housing Authority's management. My responsibility is to express an opinion on Michigan City Housing Authority's compliance based on my audit.

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

In my opinion, Michigan City Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007. The results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Michigan City Housing Authority in a separate letter dated February 22, 2008.

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

Decatur, Illinois
February 22, 2008


Certified Public Accountant

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

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended September 30, 2006 contained no findings.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Section I - Summary of Auditor's Results

Low Risk Auditee _____ yes no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes no

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

Noncompliance material to financial statements noted _____ yes no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes no

* Reportable condition(s) identified that are not
considered to be material weaknesses? _____ yes 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 no

Major Programs: (Threshold \$300,000)

CFDA Number(s)

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

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

CURRENT FINDINGS AND RECOMMENDATIONS

Section II - Financial Statement Findings

There were no audit findings discussed with Lenda J. Wilson, Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held February 22, 2008.

Section III - Federal Award Findings

There were no audit findings discussed with Lenda J. Wilson, Executive Director and members of the Board of Commissioners, during the course of the audit or at an exit conference held February 22, 2008.

PHA: IN019 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$388,345	\$47,242	\$0	\$435,587
113	Cash - Other Restricted	\$0	\$200,516	\$0	\$200,516
114	Cash - Tenant Security Deposits	\$34,800	\$0	\$0	\$34,800
100	Total Cash	\$423,145	\$247,758	\$0	\$670,903
121	Accounts Receivable - PHA Projects	\$0	\$1,274	\$0	\$1,274
122	Accounts Receivable - HUD Other Projects	\$190,056	\$0	\$89,436	\$279,492
125	Accounts Receivable - Miscellaneous	\$52,683	\$0	\$0	\$52,683
126	Accounts Receivable - Tenants - Dwelling Rents	\$24,745	\$0	\$0	\$24,745
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-14,077	\$0	\$0	\$-14,077
126.2	Allowance for Doubtful Accounts - Other	\$-17	\$0	\$0	\$-17
127	Notes, Loans, & Mortgages Receivable - Current	\$562	\$0	\$0	\$562
128	Fraud Recovery	\$11,347	\$0	\$0	\$11,347
128.1	Allowance for Doubtful Accounts - Fraud	\$-8,876	\$0	\$0	\$-8,876
129	Accrued Interest Receivable	\$10	\$1,150	\$0	\$1,160
120	Total Receivables, net of allowances for doubtful accounts	\$256,433	\$2,424	\$89,436	\$348,293
131	Investments - Unrestricted	\$534,154	\$103,717	\$0	\$637,871
142	Prepaid Expenses and Other Assets	\$29,177	\$4,364	\$0	\$33,541
143	Inventories	\$18,057	\$0	\$0	\$18,057
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0	\$0
144	Interprogram Due From	\$108,794	\$0	\$0	\$108,794
150	Total Current Assets	\$1,369,760	\$358,263	\$89,436	\$1,817,459
161	Land	\$367,457	\$0	\$0	\$367,457
162	Buildings	\$12,768,235	\$394	\$366,668	\$13,135,297
163	Furniture, Equipment & Machinery - Dwellings	\$165,343	\$0	\$53,697	\$219,040
164	Furniture, Equipment & Machinery - Administration	\$457,035	\$70,832	\$32,269	\$560,136
165	Leasehold Improvements	\$920,360	\$0	\$31,460	\$951,820
166	Accumulated Depreciation	\$-12,146,100	\$-60,476	\$-25,531	\$-12,232,107
167	Construction In Progress	\$0	\$0	\$52,710	\$52,710
160	Total Fixed Assets, Net of Accumulated Depreciation	\$2,532,330	\$10,750	\$511,273	\$3,054,353
180	Total Non-Current Assets	\$2,532,330	\$10,750	\$511,273	\$3,054,353
190	Total Assets	\$3,902,090	\$369,013	\$600,709	\$4,871,812

PHA: IN019 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$23,134	\$204	\$0	\$23,338
321	Accrued Wage/Payroll Taxes Payable	\$17,297	\$0	\$0	\$17,297
322	Accrued Compensated Absences - Current Portion	\$19,178	\$457	\$0	\$19,635
332	Accounts Payable - PHA Projects	\$0	\$5	\$0	\$5
341	Tenant Security Deposits	\$34,800	\$0	\$0	\$34,800
342	Deferred Revenues	\$1,227	\$0	\$0	\$1,227
345	Other Current Liabilities	\$45,982	\$0	\$0	\$45,982
347	Interprogram Due To	\$0	\$19,358	\$89,436	\$108,794
310	Total Current Liabilities	\$141,618	\$20,024	\$89,436	\$251,078
354	Accrued Compensated Absences - Non Current	\$30,081	\$1,945	\$0	\$32,026
350	Total Noncurrent Liabilities	\$30,081	\$1,945	\$0	\$32,026
300	Total Liabilities	\$171,699	\$21,969	\$89,436	\$283,104
508	Total Contributed Capital	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$2,532,330	\$10,750	\$511,273	\$3,054,353
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$200,516	\$0	\$200,516
512.1	Unrestricted Net Assets	\$1,198,061	\$135,778	\$0	\$1,333,839
513	Total Equity/Net Assets	\$3,730,391	\$347,044	\$511,273	\$4,588,708
600	Total Liabilities and Equity/Net Assets	\$3,902,090	\$369,013	\$600,709	\$4,871,812

PHA: IN019 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$492,704	\$0	\$0	\$492,704
704	Tenant Revenue - Other	\$36,936	\$0	\$0	\$36,936
705	Total Tenant Revenue	\$529,640	\$0	\$0	\$529,640
706	HUD PHA Operating Grants	\$522,085	\$1,280,303	\$118,807	\$1,921,195
706.1	Capital Grants	\$0	\$0	\$328,046	\$328,046
711	Investment Income - Unrestricted	\$39,575	\$14,865	\$0	\$54,440
715	Other Revenue	\$87,582	\$1,467	\$0	\$89,049
716	Gain/Loss on Sale of Fixed Assets	\$3,502	\$0	\$0	\$3,502
700	Total Revenue	\$1,182,384	\$1,296,635	\$446,853	\$2,925,872

PHA: IN019 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$228,301	\$56,058	\$0	\$284,359
912	Auditing Fees	\$3,680	\$0	\$0	\$3,680
914	Compensated Absences	\$4,395	\$-5,956	\$0	\$-1,561
915	Employee Benefit Contributions - Administrative	\$90,098	\$17,741	\$0	\$107,839
916	Other Operating - Administrative	\$96,747	\$48,075	\$26,129	\$170,951
924	Tenant Services - Other	\$2,704	\$0	\$0	\$2,704
931	Water	\$19,763	\$0	\$0	\$19,763
932	Electricity	\$106,320	\$0	\$0	\$106,320
933	Gas	\$145,910	\$0	\$0	\$145,910
938	Other Utilities Expense	\$39,880	\$0	\$0	\$39,880
941	Ordinary Maintenance and Operations - Labor	\$223,992	\$0	\$0	\$223,992
942	Ordinary Maintenance and Operations - Materials and Other	\$35,612	\$0	\$0	\$35,612
943	Ordinary Maintenance and Operations - Contract Costs	\$52,526	\$0	\$0	\$52,526
945	Employee Benefit Contributions - Ordinary Maintenance	\$76,410	\$0	\$0	\$76,410
951	Protective Services - Labor	\$0	\$0	\$28,949	\$28,949
955	Employee Benefit Contributions - Protective Services	\$0	\$0	\$2,634	\$2,634
961	Insurance Premiums	\$62,785	\$9,445	\$0	\$72,230
962	Other General Expenses	\$1	\$1,481	\$0	\$1,482
964	Bad Debt - Tenant Rents	\$16,088	\$0	\$0	\$16,088
966	Bad Debt - Other	\$6,410	\$0	\$0	\$6,410
969	Total Operating Expenses	\$1,211,622	\$126,844	\$57,712	\$1,396,178
970	Excess Operating Revenue over Operating Expenses	\$-29,238	\$1,169,791	\$389,141	\$1,529,694
971	Extraordinary Maintenance	\$6,246	\$0	\$0	\$6,246
972	Casualty Losses - Non-Capitalized	\$-2,456	\$0	\$0	\$-2,456
973	Housing Assistance Payments	\$0	\$1,109,911	\$0	\$1,109,911
974	Depreciation Expense	\$652,999	\$7,890	\$13,858	\$674,747
900	Total Expenses	\$1,868,411	\$1,244,645	\$71,570	\$3,184,626
1001	Operating Transfers In	\$61,095	\$0	\$0	\$61,095
1002	Operating Transfers Out	\$0	\$0	\$-61,095	\$-61,095
1010	Total Other Financing Sources (Uses)	\$61,095	\$0	\$-61,095	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$-624,932	\$51,990	\$314,188	\$-258,754

PHA: IN019 FYED: 09/30/2007

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$4,066,195	\$295,054	\$486,213	\$4,847,462
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$289,128	\$0	\$-289,128	\$0
1120	Unit Months Available	2,289	3,132	0	5,421
1121	Number of Unit Months Leased	2,245	3,050	0	5,295
1117	Administrative Fee Equity	\$0	\$146,528	\$0	\$146,528
1118	Housing Assistance Payments Equity	\$0	\$200,516	\$0	\$200,516

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PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

Board of Commissioners
Michigan City Housing Authority
Michigan City, Indiana

In planning and performing my audit of the financial statements of Michigan City Housing Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan City Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Michigan City Housing Authority's internal control.

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

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

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

1. As a part of the audit, a sample of Section 8 participant files and a sample of Public Housing tenant files were selected for review. During those reviews certain discrepancies noted as discussed below:
 - a. Out of ten Section 8 files, I noted a discrepancy in calculating anticipated earned wages in one file. In two other files, written documentation of the annual inspections could not be located.
 - b. HUD regulations require each Section 8 file to contain rent reasonableness documentation. During my review of the Section 8 participant files, I noted that reasonableness comparisons were not properly documented in each file that would have required the calculation.
 - c.. During the audit of the public housing files, I noted that several of the annual inspection forms could not be readily located because they had not been properly filed in the tenant files. The Housing Authority should adopt a procedure that ensures that all inspection forms are filed uniformly in each tenant file.

I recommend that quality control procedures be reviewed and revised to ensure that all required documentation is maintained uniformly in each file. Procedures should be developed to ensure that all intake staff are familiar with the policies established for proper documentation in the Housing Authority's Section 8 and Public Housing files.

2. The entire Housing Authority's system of internal controls should be formally documented in a written internal control document (manual). Discussions with Housing Authority management indicated that the Housing Authority has a system of internal control in place. While some of those procedures are written, other policies are not. Without all policies being in writing, and formally adopted, adherence to the procedures cannot always be verified. Additionally, policies you may want to consider would address: (a) approval of journal entries (hard copies should be initialed) (b) documentation of approval of payroll (payroll registers should be initialed) (c) credit card use (d) personal use of agency assets (such as automobile, cell phone, etc). A written procedural manual will aid in the training of new staff and assure management of consistency in policy application.

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

Decatur, Illinois
February 22, 2008


Certified Public Accountant