

**BENTON HARBOR HOUSING COMMISSION  
BERRIEN COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009  
AND  
REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

**BENTON HARBOR HOUSING COMMISSION**  
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**SEPTEMBER 30, 2009**

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## **INTRODUCTION**

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

*Independent Auditor's Report*

Board of Commissioners  
Benton Harbor Housing Commission  
Berrien County, Michigan

I have audited the accompanying financial statements of the business-type activities of the Benton Harbor Housing Commission, Michigan, (Housing Commission) a component unit of the City of Benton Harbor, as of and for the year ended September 30, 2009, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these 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 above present fairly, in all material respects, the financial position of the business-type activities of the Benton Harbor Housing Commission, Michigan, as of September 30, 2009, and the respective changes in financial position, and cash flows, thereof for the year then ended 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 4, 2010, on my consideration of the Benton Harbor Housing Commission, Michigan's internal control over financial reporting and on 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 control 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 important for assessing the results of my audit.

Benton Harbor Housing Commission

Independent Auditor's Report

Page Two

The management's discussion and analysis comparison information on pages 3 through 11, are not a required part of the basic financial statements but are 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 required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Benton Harbor Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Benton Harbor Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barry E. Gaudette, CPA, PC*

February 4, 2010

**Benton Harbor Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**September 30, 2009**  
**(Unaudited)**

As management of the Benton Harbor Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Benton Harbor Housing Commission's financial activities for the fiscal year ended September 30, 2009. This discussion and analysis letter of the Benton Harbor Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

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

**FINANCIAL HIGHLIGHTS**

The term "net assets" refers to the difference between assets and liabilities. The Commission's Total net assets as of September 30, 2009 were \$21,304,583. The net assets increased by \$1,861,539, an increase of 9.6% over the prior year.

Revenues and contributions for the Commission were \$4,950,771 for the fiscal year ended September 30, 2009. This was a decrease of \$3,689,686 or 42.7% from the prior year.

Expenses for the Commission were \$3,064,035 for the fiscal year ended September 30, 2009. This was a decrease of \$538,409 or 14.9% from the prior year.

HUD operating grants were \$1,863,252 for the fiscal year ended September 30, 2009. This was a decrease of \$403,845 or 17.8% from the prior year. Capital contributions were \$2,555,642 for the fiscal year ended September 30, 2009. This was a decrease of \$3,281,740 or 56.2% from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Benton Harbor Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**September 30, 2009**  
**(Continued)**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

*Required Financial Statements*

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

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

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

*Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

*Supplemental Information*

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

**FUND STATEMENTS**

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

**Benton Harbor Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**September 30, 2009**  
**(Continued)**

**FUND STATEMENTS (Continued)**

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

*Capital Fund Program:* Under this program, the Housing Commission is awarded funds each year to use for Capital needs. The Housing Commission is awarded funds each year to use for Capital needs. This program is the primary funding source for physical improvements to its properties.

*Section 8 Housing Choice Voucher Program:* Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% to 40% of a participant's income.

*Revitalization of Severely Distressed Public Housing Program (HOPE VI):* The Housing Commission began administrating a HOPE VI program on April 30, 2004. The Housing Commission, as part of its effort to revitalize the Benton Harbor community and surrounding neighborhood, plans to demolish Whitfield I and integrate the residents of Whitfield I into existing residential areas of Benton Harbor, Michigan. The Housing Commission plans to construct new replacement housing throughout the Benton Harbor neighborhood, including public housing units, affordable rental units and homeownership units. The Whitfield I site will be converted to more appropriate use as a revitalized mixed-income, mixed-finance community. The HOPE VI Grant funds were awarded in the amount of \$15,947,404. The Revitalization Plan includes, among other aspects, the Demolition of 94 distressed public housing units known as Whitfield I; the ground lease of the real property for and the construction and physical development of an anticipated 326 housing units in five distinct phases both on and off the original site. 94 units shall be operated and maintained as public housing units in accordance with the U.S. Housing Act of 1937, as amended. Of the remaining units, 74 shall be affordable rental units developed by the Developer and 158 shall be "for sale" units.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$21,304,583 at the close of the fiscal year ended September 30, 2009 an increase from \$19,443,044 in 2008. The increase in net assets of \$1,861,539 was due to the change in net assets for the fiscal year of \$1,886,736 and a prior period adjustment of \$25,197.

**Benton Harbor Housing Commission  
Management's Discussion & Analysis (MD&A)  
September 30, 2009  
(Continued)**

**FINANCIAL ANALYSIS (Continued)**

**CONDENSED STATEMENTS OF NET ASSETS  
September 30,**

	2009	2008	Dollar Change	Per Cent Change
Current and other assets	\$ 2,398,362	\$ 494,364	\$ 1,903,998	385.1%
Capital assets	21,295,631	19,374,862	1,920,769	9.9%
Total Assets	<u>23,693,993</u>	<u>19,869,226</u>	<u>3,824,767</u>	19.2%
Current liabilities	2,389,410	424,038	1,965,372	463.5%
Noncurrent liabilities	0	2,144	(2,144)	(100.0)%
Total Liabilities	<u>2,389,410</u>	<u>426,182</u>	<u>1,963,228</u>	460.7%
Net Assets:				
Invested in capital assets	21,295,631	19,374,862	1,920,769	9.9%
Restricted net assets	323,147	379,188	(56,041)	(14.8)%
Unrestricted net assets	(314,195)	(311,006)	(3,189)	(1.0)%
Total Net Assets	<u>\$ 21,304,583</u>	<u>\$ 19,443,044</u>	<u>\$ 1,861,539</u>	9.6%

Total current assets increase of \$1,903,998, in large part, due to monies received from HUD for the HOPE VI program of \$1,988,615 that is classified as deferred revenues.

The current liabilities increased by \$1,965,372, in large part, due to the monies received from HUD for the HOPE VI program of \$1,988,615 that is classified as deferred revenues. It should be noted that most of this HUD advance was spent in October 2009.

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

**Benton Harbor Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**September 30, 2009**  
**(Continued)**

**FINANCIAL ANALYSIS (Continued)**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**  
**September 30,**

	2009	2008	Dollar Change	Per Cent Change
<b>Revenues and contributions</b>				
Operating, non operating, capital contributions:				
Tenant Revenue	\$ 483,368	\$ 475,779	\$ 7,589	1.6%
Non dwelling rent	42,892	24,414	18,478	75.7%
Total PHA generated revenue	526,260	500,193	26,067	5.2%
HUD operating grants	1,863,252	2,267,097	(403,845)	(17.8)%
Capital contributions	2,555,642	5,837,382	(3,281,740)	(56.2)%
Other income	4,500	16,282	(11,782)	(72.4)%
Interest income	1,117	19,503	(18,386)	(94.3)%
<b>Total Revenues and     Contributions</b>	<b>4,950,771</b>	<b>8,640,457</b>	<b>(3,689,686)</b>	<b>(42.7)%</b>
<b>Expenses</b>				
Personnel services	364,087	539,461	(175,374)	(32.5)%
Utilities	243,145	219,207	23,938	10.9%
Operations and maintenance	232,420	285,930	(53,510)	(18.7)%
Protective services	12,164	0	12,164	100.0%
Insurance	78,446	81,142	(2,696)	(3.3)%
Payments in lieu of taxes	24,161	25,818	(1,657)	(6.4)%
Administrative allocated overhead	213,733	420,637	(206,904)	(49.2)%
Other supplies and expenses	103,016	151,523	(48,507)	(32.0)%
Other general expenses	290,362	484,655	(194,293)	(40.1)%
Housing Assistance Payments	867,628	761,597	106,031	13.9%
Depreciation	634,873	632,474	2,399	0.4%
<b>Total Expenses</b>	<b>3,064,035</b>	<b>3,602,444</b>	<b>(538,409)</b>	<b>(14.9)%</b>
Change in net assets	1,886,736	5,038,013	(3,151,277)	
Prior period adjustments	(25,197)	0	(25,197)	
Beginning net assets	19,443,044	14,405,031	5,038,013	
Ending net assets	<u>\$ 21,304,583</u>	<u>\$ 19,443,044</u>	<u>\$ 1,861,539</u>	

*Revenues:*

As can be seen in the above table total revenues and contributions decreased by \$3,689,686, in large part, due to Federal grants decreasing by \$3,685,585 from the prior fiscal year. The HOPE VI program grants accounted for \$2,971,514 of this decrease and the Low Rent Public Housing program had a reduction in operating subsidy this fiscal year.

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2009  
(Continued)**

**FINANCIAL ANALYSIS (Continued)**

*Revenues (continued):*

Benton Harbor Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. For fiscal year ending September 30, 2009, revenue generated by the Commission accounted for \$526,260 (or 11% of total revenue), while HUD contributions accounted for \$7,418,894 (or 89% of total revenue).

*Expenses:*

Total Expenses for the fiscal year ending September 30, 2009 were \$3,064,035 while for the fiscal year ending September 30, 2008 they were \$3,602,444. This represents a 15% decrease in our operating costs. The expenses decreased by \$538,409, in part, due to personnel services expenses being reduced by \$175,374 from a reduction in staff personnel and hours, gas costs increased by \$46,583 while electricity decreased by \$23,806, operations and maintenance contracts were reduced by \$41,669, office and sundry expenses decreased by \$33,652 in the Low Rent Program. The reduction of \$206,904 in administrative allocated overhead was due to the Housing Commission taking steps towards correctly breaking out expenses to the AMP level as well as streamlining their cost center overhead expenses. The Housing Commission has taken steps to reduce expenses to the cost center so that it can run as a COCC rather than using the allocated overhead method for asset management. The reduction in other general expenses of \$194,293 was due to an audit entry in the prior year of classifying all past due expenses into general expenses. This year's general expense is mostly made up of the operating subsidy transferred to the tax credit program. Housing Assistance Payments increased to landlords by \$106,031.

The following represents changes in Federal Assistance received:

	<u>09/30/09</u>	<u>09/30/08</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Low Rent Operating Subsidy	\$ 925,783	\$ 1,305,065	\$ (379,282)	(29.1)%
Public Housing Capital Fund	487,095	801,091	(313,996)	(39.2)%
Housing Choice Vouchers	900,826	921,619	(20,793)	(2.3)%
Revitalization of Severely Distressed Public Housing (HOPE VI)	2,105,190	5,076,704	(2,971,514)	(58.5)%
Total	<u>\$ 4,418,894</u>	<u>\$ 8,104,479</u>	<u>\$ (3,685,585)</u>	(45.5)%

**Benton Harbor Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**September 30, 2009**  
**(Continued)**

**FINANCIAL ANALYSIS (Continued)**

*Expenses (Continued):*

The above chart is segregated as to the Program source of funds, not the use of funds. The decrease in the Capital Fund Program was due to the fact that work projects during the fiscal year ending September 30, 2009 were for about one year's capital funding versus the prior year's use of parts of two years capital funding. The Public Housing Operating Subsidy decreased due to HUD reducing its funding. The HOPE VI program is nearing completion, therefore the reason for the funding level decreasing.

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for the fiscal year ending September 30, 2009 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with the budgeted amounts.

**OPERATIONAL HIGHLIGHTS**

The Benton Harbor Housing Commission provided the following housing for low-income individuals and families:

	September 30, 2009	September 30, 2008
Low Rent Public Housing Program	276	346
Section 8 Housing Choice Voucher Program	202	200

The Low Rent Public Housing Program has a 91.1% occupancy rate during the fiscal year ending September 30, 2009. The Housing Choice Voucher Program had 85.5% of the vouchers leased up during the fiscal year ending September 30, 2009.

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2009  
(Continued)**

**CAPITAL ASSETS**

The Benton Harbor Housing Commission's investment in capital assets, as of September 30, 2009 amounts to \$21,295,631 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

**CAPITAL ASSETS  
NET OF ACCUMULATED DEPRECIATION  
September 30,**

	<u>2009</u>	<u>2008</u>	<b>Dollar Change</b>
Land	\$ 121,807	\$ 121,807	\$ 0
Buildings	15,552,028	15,552,028	0
Furniture, equipment and machinery - dwellings	258,919	108,018	150,901
Furniture, equipment and machinery - administration	81,568	247,799	(166,231)
Construction in progress	14,445,469	11,892,998	2,552,471
	<u>30,459,791</u>	<u>27,922,650</u>	<u>2,537,141</u>
Accumulated depreciation	(9,164,160)	(8,547,788)	(616,372)
Total	<u>\$ 21,295,631</u>	<u>\$ 19,374,862</u>	<u>\$ 1,920,769</u>

Capital assets increased by \$1,920,769, because of capital outlays of \$2,556,649, disposal of a Van for \$18,500, depreciation of \$634,873, and a reduction of \$18,500 in accumulated depreciation and a miscellaneous adjustment of \$1,007.

During the fiscal year ending September 30, 2009, our Capital Fund Program work projects included:

The HOPE VI capital outlays were \$2,106,197. Other capital outlays were for windows at the Buss Development, floor replacement at scattered sites foundation repairs waterline break at Buss, mailbox replacement for Harbor Towers, plumbing supplies and a hot water heater, and cabinet replacement.

Capital projects planned for the next fiscal year include exterior upgrades, electrical lighting in hallways, replace flooring, furnace replacements, and maintenance vehicle repair.

**Benton Harbor Housing Commission  
Management's Discussion & Analysis (MD&A)  
September 30, 2009  
(Continued)**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

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

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

**REQUEST FOR INFORMATION**

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

Juanita Gibbs, Executive Director  
Benton Harbor Housing Commission  
721 Nate Wells Drive  
Benton Harbor, Michigan 49022

## **FINANCIAL STATEMENTS**

**Benton Harbor Housing Commission**  
**Statement of Net Assets**  
**September 30, 2009**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 73,978
Cash-restricted	2,264,205
Receivables, net	56,336
Prepaid expenses	3,843
Total Current Assets	2,398,362

Capital Assets:

Land	121,807
Buildings	15,552,028
Equipment	340,487
Building improvements	14,445,469
	30,459,791
Less: accumulated depreciation	(9,164,160)
Net Capital Assets	21,295,631

Total Assets \$ 23,693,993

**LIABILITIES and NET ASSETS**

Current Liabilities:

Bank overdraft	\$ 38,720
Accounts payable	277,654
Tenant security deposits	60,951
Accrued expenses	23,470
Deferred revenues	1,988,615
Total Current Liabilities	2,389,410

Net Assets:

Invested in capital assets	21,295,631
Restricted net assets	323,147
Unrestricted net assets	(314,195)
Total Net Assets	21,304,583

Total Liabilities and Net Assets \$ 23,693,993

See notes to financial statements

**Benton Harbor Housing Commission  
Statement of Revenues, Expenses, And  
Changes in Net Assets  
Year Ended September 30, 2009**

**OPERATING REVENUES:**

Dwelling rent	\$ 483,368
Non dwelling rent	42,892
Operating grants	<u>1,863,252</u>
Total operating revenues	<u>2,389,512</u>

**OPERATING EXPENSES:**

Administration	511,514
Tenant services	6,551
Utilities	243,145
Ordinary maintenance and operation	384,911
Protective services	12,164
Insurance	78,446
General expenses	324,803
Housing assistance payments	867,628
Depreciation	<u>634,873</u>

Total operating expenses	<u>3,064,035</u>
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Operating income (loss)	<u>(674,523)</u>
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**NONOPERATING REVENUES:**

Investment interest income	1,117
Other income	<u>4,500</u>

Total non operating revenues	<u>5,617</u>
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Income (loss) before contributions	(668,906)
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**CAPITAL CONTRIBUTIONS**

	<u>2,555,642</u>
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Change in net assets	1,886,736
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Prior period adjustments	(25,197)
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Net assets, beginning	<u>19,443,044</u>
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Net assets, ending	<u><u>\$ 21,304,583</u></u>
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See notes to financial statements

**Benton Harbor Housing Commission**  
**Statement of Cash Flows**  
**Year Ended September 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from dwelling and non dwelling rents	\$ 481,085
Cash received from operating grants	1,865,461
Cash payments to other suppliers of goods and services	(2,069,883)
Cash payments to employees for services	(349,638)
Cash payments for in lieu of taxes	<u>(2,000)</u>
Net cash (used) by operating activities	<u>(74,975)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Restricted cash	(1,910,155)
Tenant security deposits	(50)
Other revenue	<u>4,500</u>
Net cash (used) by noncapital financing activities	<u>(1,905,705)</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING</b>	
Capital grants	4,508,968
Payments for capital acquisitions	<u>(2,556,649)</u>
Net cash provided by capital and related financing activities	<u>1,952,319</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Receipts of interest income	<u>1,117</u>
Net cash provided by investing activities	<u>1,117</u>
Net increase (decrease) in cash	(27,244)
Cash and cash equivalents, beginning	<u>101,222</u>
Cash and cash equivalents, ending	<u><u>\$ 73,978</u></u>

See notes to financial statements

**Benton Harbor Housing Commission  
Statement of Cash Flows (Continued)  
Year Ended September 30, 2009**

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

Operating income (loss)	\$ (674,523)
Adjustments to reconcile operating (loss) to net cash provided (used)	
By operating activities:	
Depreciation	634,873
Prior period adjustments	(25,197)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(47,829)
Accounts receivable-HUD	2,209
Prepaid expenses	(2,737)
Inventories	771
Increase (decrease) in liabilities:	
Bank overdraft	38,720
Accounts payable	(30,795)
Accrued wage/payroll taxes payable	6,721
Accrued compensated absences	(2,003)
Accounts payable-PILOT	22,161
Deferred revenues	2,654
	2,654
Net cash (used) by operating activities	\$ (74,975)

See notes to financial statements

**Benton Harbor Housing Commission**  
**Notes to Financial Statements**  
**September 30, 2009**

**NOTE 1: Summary of Significant Accounting Policies**

The Benton Harbor Housing Commission (the Housing Commission) is a component unit of the City of Benton Harbor, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Benton Harbor on January 16, 1950, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1(a) Financial Reporting Entity**

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
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In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

**1(b) Basis of Presentation**

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

## **1(b) Basis of Presentation (Continued)**

Following is a description of the Housing Commission's programs:

<b>Program</b>	<b>Brief Description</b>
Low Rent Program	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers Program	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which Provides funds to housing authorities to modernize Public housing developments.
Revitalization of Severely Distressed Public Housing Program (HOPE VI)	The Housing Commission began administrating this program on April 30, 2004. The Housing Commission as part of its effort to revitalize the Benton Harbor community and surrounding neighborhood, plans to demolish Whitfield I and construct new replacement housing throughout the Benton Harbor neighborhood, including public housing units, affordable rental units and homeownership units.

## **1(c) Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

In the financial statements, the "economic resources" measurement focus is used as follows: The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

### **Basis of Accounting**

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

## **1(d) Assets, Liability, and Equity**

### **Cash and Investments**

For the purpose of the Statement of Net Assets, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

### **Interprogram Receivables and Payables**

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

### **Receivables**

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

### **Inventories**

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

### **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### **Budgets and Budgetary Accounting**

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

### **Estimates and Assumptions**

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

## **1(d) Assets, Liabilities, and Equity (Continued)**

### **Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$300 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings		40 years
Building improvements	10 -	15 years
Equipment and furnishings	5 -	10 years

### **Compensated Absences**

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

### **Equity Classifications**

Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.
- c) Restricted net assets – Consists of net assets of the Housing Choice Voucher program that are restricted for payments by HUD over the Housing Assistance Payments made to landlords. Restricted cash is \$323,147 and restricted net assets is the same amount. The Low Rent Program pays all of the administrative costs for the Housing Choice Voucher program and gets reimbursed from the Housing Choice Voucher program each month.

## **1(e) Revenues, Expenditures, and Expenses**

### **Operating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *non operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise fund are charges to tenants for rents, non dwelling rents, and operating grants from HUD. Operating expenses for the operating fund include the cost of administrative, tenant services, utilities, ordinary maintenance and operation, general, casualty losses, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

### **Interfund Transfers**

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets (see page 13), all interfund transfers between individual programs, if any, have been eliminated.

### **Post Employment Benefits**

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

### **Income Taxes**

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

## **NOTE 2: Stewardship, Compliance, and Accountability**

The Housing Commission and its component units, if any, are subject to various Federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows.

### **2(a) Program Accounting Requirements**

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

<b>Program</b>	<b>Required By</b>
Public and Indian Housing	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD
Housing Choice Voucher Program	U.S. Department of HUD
HOPE VI Program	U.S. Department of HUD

## **2(b) Deposits and Investments Laws and Regulations**

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written Depositary Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a) Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

## **2(c) Revenue Restrictions**

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization
HOPE VI	Revitalization

For the year ended September 30, 2009, the Housing Commission complied, in all material respects, with these revenue restrictions.

## **NOTE 3: Detail Notes on Transactions Classes/Accounts**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

### **3(a) Cash and Investments**

#### **Deposits**

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at September 30, 2009.

The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

### 3(a) Cash and Investments (Continued)

#### Deposits (Continued)

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 2,002,348	\$ 51,335	\$ 1,953,013	\$ 0	\$ 1,981,903
U.S. Treasury plus market fund	317,335	317,335	0	0	317,335
	<u>\$ 2,319,683</u>	<u>\$ 368,670</u>	<u>\$ 1,953,013</u>	<u>\$ 0</u>	<u>\$ 2,299,238</u>

#### Investments

The Housing Commission did not have any investments.

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Cash on hand	\$ 225
Carrying amount of deposits	2,299,238
Bank overdraft	38,720
Total	<u>\$ 2,338,183</u>

Cash and investments:	
Enterprise activities	\$ 2,368,606
Enterprise activities – deposits in transit	1,253
Enterprise activities – checks written in excess of deposits	(31,676)
Total	<u>\$ 2,338,183</u>

### 3(b) Receivables

Receivables detail at September 30, 2009, is as follows:

Tenant accounts receivable	\$ 55,195
Accounts receivable-HUD	1,141
	<u>\$ 56,336</u>

### 3(c) Prepaid Expenses and Other Assets

Prepaid detail at September 30, 2009, is as follows:

Prepaid insurance	<u>\$ 3,843</u>
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### 3(d) Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Balance 09/30/08</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 09/30/09</u>
<b>Low Rent Program</b>				
Land	\$ 121,807	\$ 0	\$ 0	\$ 121,807
Buildings	15,552,028	0	0	15,552,028
Furniture, equipment & machinery - dwellings	108,018	150,901	0	258,919
Furniture, equipment & machinery - administration	206,020	0	(166,231)	39,789
Construction in progress	473,602	447,281	0	920,883
	<u>16,461,475</u>	<u>\$ 598,182</u>	<u>\$ (166,231)</u>	<u>16,893,426</u>
Less accumulated depreciation	<u>(8,539,840)</u>	<u>\$ (629,991)</u>	<u>\$ 18,501</u>	<u>(9,151,330)</u>
Total	<u>\$ 7,921,635</u>			<u>\$ 7,742,096</u>
<b>Housing Choice Voucher Program</b>				
Furniture, equipment & machinery - administration	<u>\$ 16,422</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,422</u>
	<u>16,422</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>16,422</u>
Less accumulated depreciation	<u>(2,535)</u>	<u>\$ (2,346)</u>	<u>\$ 0</u>	<u>(4,881)</u>
Total	<u>\$ 13,887</u>			<u>\$ 11,541</u>
<b>HOPE VI</b>				
Furniture, equipment & machinery - administration	\$ 25,357	\$ 0	\$ 0	\$ 25,357
Construction in progress	11,419,396	2,105,190	0	13,524,586
	<u>11,444,753</u>	<u>\$ 2,105,190</u>	<u>\$ 0</u>	<u>13,549,943</u>
Less accumulated depreciation	<u>(5,413)</u>	<u>\$ (2,536)</u>	<u>\$ 0</u>	<u>(7,949)</u>
Total	<u>\$ 11,439,340</u>			<u>\$ 13,541,994</u>
<b>Combined Totals</b>				<u>\$ 21,295,631</u>

### 3(d) Capital assets (Continued)

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

Business-type activities:	
Low Rent Program	\$ 629,991
Housing Choice Voucher Program	2,346
HOPE VI	2,536
	<u>\$ 634,873</u>

### 3(e) Accounts Payable

Payable detail at September 30, 2009, is as follows:

Accounts payable-trade<=90 days	\$ 138,423
Accounts payable-trade>90 days past due	43,539
Accounts payable-other government-PILOT	95,692
	<u>\$ 277,654</u>

### 3(f) Accrued Expenses

Accrued expense detail at September 30, 2009, is as follows:

Accrued wage/payroll taxes payable	\$ 6,721
Accrued compensated absences payable	16,749
	<u>\$ 23,470</u>

### 3(g) Deferred revenues

HOPE VI advance	\$ 1,926,827
Tenants	18,754
CFP drawdown	43,034
	<u>\$ 1,988,615</u>

### 3(h) Non-current Liabilities

As of September 30, 2009, the non-current liabilities are comprised of the following:

Accrued compensated absences- noncurrent portion	<u>\$ 0</u>
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The following is a summary of changes in non-current liabilities for the year ended September 30, 2009:

	<u>Balance</u> <u>09/30/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>09/30/09</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Accrued compensated absences	\$ 2,144	\$ 0	\$ (2,144)	\$ 0	\$ 16,749

### 3(i) Inter program Transactions and Balance

#### *Operating Transfers*

There was an operating transfer of \$21,165 from the capital fund program to the low rent program during the fiscal year ended September 30, 2009.

#### *Interprogram Receivable/Payable*

Low Rent Program	\$	51,746
Housing Choice Voucher Program		(37,515)
HOPE VI Program		(14,231)
	<u>\$</u>	<u>0</u>

### NOTE 4: Other Notes

#### 4(a) Employee Retirement Plans

The Benton Harbor Housing Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65, employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

#### 4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

#### 4(c) Commitments and Contingencies

##### Commitments – Construction

At September 30, 2009, the Housing Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
2007 CFP	\$ 570,696	\$ 569,715
2008 CFP	496,333	456,168
2009 CFP	513,460	0
2009 CFRG	628,259	0

#### 4(c) Commitments and Contingencies (Continued)

##### Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

#### 5(d) Prior Period Adjustments

##### Low Rent Program

Prior period adjustments for  
accounts payable not setup in the  
Prior fiscal year:

12/17/2008	\$	3,900.00	Unemployment Insurance Agency
01/06/2009		3,900.00	Unemployment Insurance Agency
01/26/2009		3,900.00	Unemployment Insurance Agency
03/05/2009		3,900.00	Unemployment Insurance Agency
03/05/2009		666.67	Industrial Sanitation
04/02/2009		3,900.00	Unemployment Insurance Agency
05/04/2009		500.00	Industrial Sanitation
		14.46	IRS
		<u>1,165.87</u>	Miscellaneous adjustments to A/P
	\$	<u><u>21,847.00</u></u>	

##### Housing Choice Voucher Program

Prior period adjustment of account receivable from HUD in the amount of \$3,350.00.

**SUPPLEMENTARY INFORMATION**

**Benton Harbor Housing Commission**  
**Combining Statement of Net Assets by Program**  
**September 30, 2009**

<b>ASSETS</b>	<u>Low Rent Program</u>	<u>Housing Choice Voucher Program</u>	<u>HOPE VI Program</u>	<u>Totals</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 70,964	\$ 3,014	\$ 0	\$ 73,978
Cash-restricted	0	323,147	1,941,058	2,264,205
Receivables, net	55,405	931	0	56,336
Prepaid expenses	3,843	0	0	3,843
Due from other programs	51,746	0	0	51,746
	<u>181,958</u>	<u>327,092</u>	<u>1,941,058</u>	<u>2,450,108</u>
<b>Total current assets</b>				
<b>Capital assets:</b>				
Land	121,807	0	0	121,807
Buildings	15,552,028	0	0	15,552,028
Equipment	298,708	16,422	25,357	340,487
Construction in progress	920,883	0	13,524,586	14,445,469
	<u>16,893,426</u>	<u>16,422</u>	<u>13,549,943</u>	<u>30,459,791</u>
Less accumulated depreciation	<u>(9,151,330)</u>	<u>(4,881)</u>	<u>(7,949)</u>	<u>(9,164,160)</u>
	<u>7,742,096</u>	<u>11,541</u>	<u>13,541,994</u>	<u>21,295,631</u>
<b>Net capital assets</b>				
	<u>7,742,096</u>	<u>11,541</u>	<u>13,541,994</u>	<u>21,295,631</u>
<b>Total Assets</b>	<u>\$ 7,924,054</u>	<u>\$ 338,633</u>	<u>\$ 15,483,052</u>	<u>\$ 23,745,739</u>

**Benton Harbor Housing Commission**  
**Combining Statement of Net Assets by Program**  
(Continued)  
**September 30, 2009**

	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program	Totals
<b>LIABILITIES and NET ASSETS</b>				
Current liabilities:				
Bank overdraft	\$ 38,720	\$ 0	\$ 0	\$ 38,720
Accounts payable	277,654	0	0	277,654
Tenant security deposits	60,951	0	0	60,951
Accrued expenses	21,140	2,330	0	23,470
Deferred revenues	61,788	0	1,926,827	1,988,615
Due to other programs	0	37,515	14,231	51,746
Total current liabilities	460,253	39,845	1,941,058	2,441,156
Net Assets:				
Invested in capital assets	7,742,096	11,541	13,541,994	21,295,631
Restricted net assets	0	323,147	0	323,147
Unrestricted net assets	(278,295)	(35,900)	0	(314,195)
Total net assets	7,463,801	298,788	13,541,994	21,304,583
Total Liabilities and Net Assets	\$ 7,924,054	\$ 338,633	\$ 15,483,052	\$ 23,745,739

**Benton Harbor Housing Commission**  
**Combining Statement of Revenues, Expenses, and**  
**Changes in Net Assets by Program**  
**Year Ended September 30, 2009**

	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program	Totals
<b>OPERATING REVENUES:</b>				
Dwelling rent	\$ 483,368	\$ 0	\$ 0	\$ 483,368
Non dwelling rent	42,892	0	0	42,892
Operating grants	962,426	900,826	0	1,863,252
Total operating revenues	<u>1,488,686</u>	<u>900,826</u>	<u>0</u>	<u>2,389,512</u>
<b>OPERATING EXPENSES:</b>				
Administration	425,449	86,065	0	511,514
Tenant services	6,551	0	0	6,551
Utilities	243,145	0	0	243,145
Ordinary maintenance and Operation	384,911	0	0	384,911
Protective services	12,164	0	0	12,164
Insurance	78,446	0	0	78,446
General expenses	321,860	2,943	0	324,803
Housing assistance payments	0	867,628	0	867,628
Depreciation	629,991	2,346	2,536	634,873
Total operating expenses	<u>2,102,517</u>	<u>958,982</u>	<u>2,536</u>	<u>3,064,035</u>
Operating income (loss)	<u>(613,831)</u>	<u>(58,156)</u>	<u>(2,536)</u>	<u>(674,523)</u>
<b>NONOPERATING REVENUES :</b>				
Investment interest income	801	316	0	1,117
Other income	3,569	931	0	4,500
Total non operating revenues	<u>4,370</u>	<u>1,247</u>	<u>0</u>	<u>5,617</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>450,452</u>	<u>0</u>	<u>2,105,190</u>	<u>2,555,642</u>
Change in net assets	(159,009)	(56,909)	2,102,654	1,886,736
Prior period adjustments	(21,847)	(3,350)	0	(25,197)
Net assets, beginning	<u>7,644,657</u>	<u>359,047</u>	<u>11,439,340</u>	<u>19,443,044</u>
Net assets, ending	<u>\$ 7,463,801</u>	<u>\$ 298,788</u>	<u>\$ 13,541,994</u>	<u>\$ 21,304,583</u>

**Benton Harbor Housing Commission**  
**Combining Statement of Cash Flows by Program**  
**Year Ended September 30, 2009**

	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from dwelling and Non dwelling rents	\$ 481,085	\$ 0	\$ 0	\$ 481,085
Cash received from operating grants	962,216	903,245	0	1,865,461
Cash payments to other suppliers of goods and services	(1,177,244)	(892,639)	0	(2,069,883)
Cash payments to employees for services	(280,941)	(68,697)	0	(349,638)
Cash payments for in lieu of taxes	(2,000)	0	0	(2,000)
Net cash (used) by operating activities	<u>(16,884)</u>	<u>(58,091)</u>	<u>0</u>	<u>(74,975)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Restricted cash	0	30,903	(1,941,058)	(1,910,155)
Inter program due from (to)	(17,694)	28,955	(11,261)	0
Tenant security deposits	(50)	0	0	(50)
Other revenue	3,569	931	0	4,500
Net cash provided (used) by noncapital financing activities	<u>(14,175)</u>	<u>60,789</u>	<u>(1,952,319)</u>	<u>(1,905,705)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital grants	450,452	0	4,058,516	4,508,968
Payments for capital acquisitions	(450,452)	0	(2,106,197)	(2,556,649)
Net cash provided by capital and related financing activities	<u>0</u>	<u>0</u>	<u>1,952,319</u>	<u>1,952,319</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Receipts of interest	801	316	0	1,117
Net cash provided by investing activities	<u>801</u>	<u>316</u>	<u>0</u>	<u>1,117</u>
Net increase (decrease) in cash	(30,258)	3,014	0	(27,244)
Cash and cash equivalents, beginning	101,222	0	0	101,222
Cash and cash equivalents, ending	<u>\$ 70,964</u>	<u>\$ 3,014</u>	<u>\$ 0</u>	<u>\$ 73,978</u>

**Benton Harbor Housing Commission**  
**Combining Statement of Cash Flows by Program**  
**(Continued)**  
**Year Ended September 30, 2009**

	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program	Totals
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (613,831)	\$ (58,156)	\$ (2,536)	\$ (674,523)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:				
Depreciation	629,991	2,346	2,536	634,873
Prior period adjustments	(21,847)	(3,350)	0	(25,197)
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable-tenants	(47,829)	0	0	(47,829)
Accounts receivable-HUD	(210)	2,419	0	2,209
Prepaid expenses	(2,737)	0	0	(2,737)
Inventories	771	0	0	771
Increase (decrease) in liabilities:				
Bank overdraft	38,720	0	0	38,720
Accounts payable	(30,795)	0	0	(30,795)
Accrued wage/payroll taxes payable	6,721	0	0	6,721
Accrued compensated absences	(653)	(1,350)	0	(2,003)
Accounts payable-PILOT	22,161	0	0	22,161
Deferred revenues	2,654	0	0	2,654
Net cash (used) by operating activities	<u>\$ (16,884)</u>	<u>\$ (58,091)</u>	<u>\$ 0</u>	<u>\$ (74,975)</u>

**Benton Harbor Housing Commission  
Schedule of Expenditures of Federal Awards  
And Notes to the Schedule of Federal Awards  
Year Ended September 30, 2009**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major – Direct Program</u>		
2009	Low Rent Public Housing	14.850	\$ 925,783
	<u>Low Income Public Housing Major – Direct Program</u>		
2009	Housing Choice Vouchers	14.871	900,826
	<u>Low Income Public Housing Major – Direct Program</u>		
2009	Revitalization of Severely Distressed Public Housing Program (HOPE VI)	14.866	2,105,190
	<u>Public and Indian Housing Major – Direct Program</u>		
2009	Public Housing Capital Fund Program	14.872	<u>487,095</u>
	Total		<u>\$ 4,418,894</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

**Benton Harbor Housing Commission  
Financial Data Schedule  
Year Ended September 30, 2009**

FDS Line Item No.		Low Rent Program	Housing Choice Voucher Program	HOPE VI Program
	<b>ASSETS</b>			
	Current assets:			
111	Cash-unrestricted	\$ 10,013	\$ 3,014	\$ 0
112	Cash-restricted-modernization	0	0	1,941,058
113	Cash-other restricted	0	323,147	0
114	Cash-tenant security deposit	60,951	0	0
100	Total cash	<u>70,964</u>	<u>326,161</u>	<u>1,941,058</u>
	Receivables:			
122	A/R-PHA other projects	210	931	0
126	A/R-tenants-dwelling rents	55,195	0	0
120	Total receivables, net	<u>55,405</u>	<u>931</u>	<u>0</u>
	Other Current Assets:			
142	Prepaid expenses	3,843	0	0
144	Interprogram-due from	51,746	0	0
150	Total current assets	<u>181,958</u>	<u>327,092</u>	<u>1,941,058</u>
	Noncurrent Assets:			
	Fixed Assets:			
161	Land	121,807	0	0
162	Buildings	15,552,028	0	0
163	Furn, equip & mach-dwelling	258,919	0	0
164	Furn, equip & mach-administration	39,789	16,422	25,357
166	Accumulated depreciation	(9,151,330)	(4,881)	(7,949)
167	Construction in progress	920,883	0	13,524,586
160	Total fixed assets, net	<u>7,742,096</u>	<u>11,541</u>	<u>13,541,994</u>
180	Total non-current assets	<u>7,742,096</u>	<u>11,541</u>	<u>13,541,994</u>
190	Total Assets	<u>\$ 7,924,054</u>	<u>\$ 338,633</u>	<u>\$ 15,483,052</u>

Totals

\$ 13,027  
1,941,058  
323,147  
60,951  
2,338,183

1,141  
55,195  
56,336

3,843  
51,746  
2,450,108

121,807  
15,552,028  
258,919  
81,568  
(9,164,160)  
14,445,469  
21,295,631

21,295,631  
\$ 23,745,739

**Benton Harbor Housing Commission**  
**Financial Data Schedule**  
(Continued)  
**Year Ended September 30, 2009**

FDS Line Item No.	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program
<b>LIABILITIES and NET ASSETS</b>			
Liabilities:			
Current liabilities:			
311	\$ 38,720	\$ 0	\$ 0
312	138,423	0	0
313	43,539	0	0
321	6,721	0	0
322	14,419	2,330	0
333	95,692	0	0
341	60,951	0	0
342	61,788	0	1,926,827
347	0	37,515	14,231
310	<u>460,253</u>	<u>39,845</u>	<u>1,941,058</u>
300	<u>460,253</u>	<u>39,845</u>	<u>1,941,058</u>
Net assets:			
508.1	7,742,096	11,541	13,541,994
511.1	0	323,147	0
512.1	<u>(278,295)</u>	<u>(35,900)</u>	<u>0</u>
513	<u>7,463,801</u>	<u>298,788</u>	<u>13,541,994</u>
600	<u>\$ 7,924,054</u>	<u>\$ 338,633</u>	<u>\$ 15,483,052</u>

Totals

\$ 38,720  
138,423

43,539

6,721  
16,749

95,692  
60,951  
1,988,615  
51,746

2,441,156

2,441,156

21,295,631  
323,147  
(314,195)

21,304,583

\$ 23,745,739

**Benton Harbor Housing Commission**  
**Financial Data Schedule**  
(Continued)  
**Year Ended September 30, 2009**

FDS Line Item No.		Low Rent Program	Housing Choice Voucher Program	HOPE VI Program
	<b>Revenues:</b>			
70300	Net tenant rental revenue	\$ 483,368	\$ 0	\$ 0
70400	Tenant revenue-other	42,892	0	0
70500	Total tenant revenue	526,260	0	0
70600	HUD PHA operating grants	962,426	900,826	0
70610	Capital grants	450,452	0	2,105,190
71500	Other income	3,569	931	0
72000	Investment income-unrestricted	801	316	0
70000	Total revenue	<u>1,943,508</u>	<u>902,073</u>	<u>2,105,190</u>
	<b>Expenses</b>			
	Administrative:			
91100	Salaries	100,979	53,650	0
91400	Advertising and marketing	438	0	0
91500	Employee benefit contributions	33,539	13,697	0
91600	Office expenses	40,405	7,352	0
91700	Legal expense	7,725	275	0
91810	Allocated overhead	213,733	0	0
91900	Other	28,630	11,091	0
91000	Total operating-administrative	<u>425,449</u>	<u>86,065</u>	<u>0</u>
	Tenant services:			
92400	Tenant services-other	6,551	0	0
92500	Total tenant services	<u>6,551</u>	<u>0</u>	<u>0</u>
	Utilities:			
93100	Water	48,122	0	0
93200	Electricity	85,168	0	0
93300	Gas	80,809	0	0
93600	Sewer	29,046	0	0
93000	Total utilities	<u>243,145</u>	<u>0</u>	<u>0</u>

<u>Totals</u>	
\$	483,368
	<u>42,892</u>
	526,260
	1,863,252
	2,555,642
	4,500
	<u>1,117</u>
	<u>4,950,771</u>

	154,629
	438
	47,236
	47,757
	8,000
	213,733
	<u>39,721</u>
	<u>511,514</u>

	<u>6,551</u>
	<u>6,551</u>

	48,122
	85,168
	80,809
	<u>29,046</u>
	<u>243,145</u>

**Benton Harbor Housing Commission**  
**Financial Data Schedule**  
(Continued)  
**Year Ended September 30, 2009**

	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program
<b>Expenses (continued):</b>			
Ordinary maintenance and operation:			
94100	123,043	0	0
94200	44,484	0	0
94300	187,936	0	0
94500	29,448	0	0
94000	<u>384,911</u>	<u>0</u>	<u>0</u>
Protective services:			
95200	<u>12,164</u>	<u>0</u>	<u>0</u>
Insurance:			
96110	51,622	0	0
96130	6,066	0	0
96140	20,758	0	0
96100	<u>78,446</u>	<u>0</u>	<u>0</u>
General expenses:			
96200	290,362	549	0
96210	7,337	2,394	0
96300	24,161	0	0
96000	<u>321,860</u>	<u>2,943</u>	<u>0</u>
96900	<u>1,472,526</u>	<u>89,008</u>	<u>0</u>
97000	<u>470,982</u>	<u>813,065</u>	<u>2,105,190</u>

Totals

123,043  
44,484  
187,936  
29,448  
384,911

12,164

51,622  
6,066  
20,758  
78,446

290,911  
9,731  
24,161

324,803

1,561,534

3,389,237

**Benton Harbor Housing Commission**  
**Financial Data Schedule**  
(Continued)  
**Year Ended September 30, 2009**

FDS Line Item No.	Low Rent Program	Housing Choice Voucher Program	HOPE VI Program
<b>Expenses (continued):</b>			
Other expenses:			
97300	0	866,768	0
97350	0	860	0
97400	629,991	2,346	2,536
	<u>629,991</u>	<u>869,974</u>	<u>2,536</u>
90000	2,102,517	958,982	2,536
10000	(159,009)	(56,909)	2,102,654
11030	7,644,657	359,047	11,439,340
11040	<u>(21,847)</u>	<u>(3,350)</u>	<u>0</u>
	<u>\$ 7,463,801</u>	<u>\$ 298,788</u>	<u>\$ 13,541,994</u>
11190- 210		2,400	
11190	4,224	2,400	
11210	3,850	2,052	

Totals

866,768

860

634,873

1,502,501

3,064,035

1,886,736

19,443,044

(25,197)

\$ 21,304,583

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

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

Board of Housing Commissioners  
Benton Harbor Housing Commission  
Berrien County, Michigan

I have audited the financial statements of the business-type activities of Benton Harbor Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2009, which comprise the Housing Commission's basic financial statements and have issued my report thereon dated February 4, 2010. 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 the Housing Commission'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 Housing Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a misstatement of the Housing Commission's financial statements that is more than inconsequential will not be prevented or detected by the Housing Commission's internal control.

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*  
Benton Harbor Housing Commission  
Page Two

**Internal Control Over Financial Reporting (Continued)**

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 Housing Commission's internal control.

My consideration of 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Housing Commissioners, others within the entity, the City of Benton Harbor, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Gaudette, CPA, PC*

February 4, 2010

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

**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 Housing Commissioners  
Benton Harbor Housing Commission  
Berrien County, Michigan

**Compliance**

I have audited the compliance of Benton Harbor Housing Commission, Michigan, (Housing Commission) 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, 2009. The Housing Commission'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 the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission'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 the Housing Commission'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 the Housing Commission's compliance with those requirements.

In my opinion, the Housing Commission, 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, 2009.

### **Internal Control over Compliance**

The management of the Housing Commission, 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 the Housing Commission'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, 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 Housing Commission'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 preceding paragraph and would not necessarily identify all deficiencies in the entity's 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.

This report is intended solely for the information and use of management, the Board of Housing Commissioners, others within the agency, the City of Benton Harbor, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Gaudette, CPA, PC*

February 4, 2010

**Benton Harbor Housing Commission**  
**Status of Prior Audit Findings**  
**September 30, 2009**

Low Rent Public Housing Program – CFDA No. 14.850

**Finding Item 2008-1:** Accounts Payable

*Condition:* During the testing of subsequent disbursements I noted that many invoices had a prior balance due, but may not have been setup as an account payable as of September 30, 2008. The results of my accounts payable search as of September 30, 2009, showed that any prior balances due were setup as accounts payable. This finding is **cleared**.

**Finding Item 2008-2:** Internal Controls

*Condition:* During my review of internal controls, I discovered through an inquiry of the staff person that prepares the checks for disbursements, that the former Executive Director did not provide documentation for all disbursements. Also, the former Executive Director opened all of the mail. The Board Chairperson and the Executive Director have been reviewing all invoices and sign off approval before signing the checks. This finding is **cleared**.

HOPE VI Program – CFDA No. 14.866

**Finding Item 2008-3:** Inspections, Choice of Rent, Notice of Eligibility for Relocation Assistance

*Condition:* The prior year findings 2007-9 through 2007-12 have yet to be cleared by HUD. These findings have been **cleared** by HUD.

Low Rent Public Housing Program – CFDA No. 14.850

**Finding Item 2008-4:** Invoices

*Condition:* I tested Sixty Three (63) disbursements from the operating checking account. Twenty Three (23) of the disbursements tested did not have documentation attached to support the disbursement. This testing does not include the credit card disbursements, since the FBI has that documentation. The exception rate is 34.3%. The prior year had a 10.9% exception rate. I tested 57 disbursement transactions for this fiscal year and did not have any missing documentation. This finding is **cleared**.

**Benton Harbor Housing Commission**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2009**

**SECTION I – SUMMARY OF AUDITOR RESULTS**

1. The Auditor's report expresses an unqualified opinion on the financial statements of Benton Harbor Housing Commission.
2. There were no control deficiencies disclosed during the audit of the financial statements.
3. There were no significant deficiencies or other matters that were required to be reported under *Government Auditing Standards* to the financial statements of Benton Harbor Housing Commission that were disclosed during the audit.
4. There were no significant deficiencies in internal control over major federal award programs disclosed during the audit that were reported as material weaknesses).
5. The auditor's report on compliance for the major federal award programs for Benton Harbor Housing Commission disclosed no significant deficiencies and expresses an unqualified opinion on the affected major program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:
  - Low Rent Public Housing program - CFDA No. 14.850a
  - Housing Choice Voucher program - CFDA No. 14.871
  - Capital Fund program – CFDA No. 14.872
  - HOPE VI program – CFDA No. 14.866
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Benton Harbor Housing Commission was not determined to be a low risk auditee, since there were findings in the prior year.

**Benton Harbor Housing Commission**  
**Schedule of Findings and Questioned Costs**  
**(Continued)**  
**September 30, 2009**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS**

None