

**HIGHLAND PARK HOUSING COMMISSION**

**AUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

HIGHLAND PARK HOUSING COMMISSION  
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## INDEPENDENT AUDITOR'S REPORT

June 26, 2008

Board of Commissioners  
Highland Park Housing Commission  
Highland Park, Michigan

Department of Housing &  
Urban Development  
Office of Public Housing  
Detroit, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Highland Park Housing Commission, a component unit of the City of Highland Park, Michigan, as of and for the year ended September 30, 2007. These basic financial statements are the responsibility of the Highland Park Housing Commission's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

We were unable to obtain correct subsidiary schedules supporting balance sheet accounts. We had unexplained differences in general and payroll checking accounts. Tenant accounts receivable subsidiary ledger was not reconciled to the general ledger and no subsidiary schedule was available for accounts payable.

In our opinion, except for the lack of subsidiary schedules, the basic financial statements, referred to above, present fairly, in all material respects, the financial position of the Highland Park Housing Commission, as of September 30, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2008 on our consideration of the Highland Park Housing Commission's internal control over

financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and others. The purpose of that report is to describe the scope of our 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 should be considered in assessing the results of our audit.

The management's discussion and analysis information, on pages 3 through 9 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. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Financial Data Schedule and Schedule of Expenditures of Federal Awards as required by the Department of Housing and Urban Development and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Highland Park Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Martin, Arrington, Desai & Meyers, P.C.*

Martin, Arrington, Desai & Meyers, P.C.  
Certified Public Accountants

# HIGHLAND PARK HOUSING COMMISSION

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## Management's Discussion and Analysis (MD&A) September 30, 2007 (Unaudited)

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This section of the Highland Park Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements \_ and Management's Discussion and Analysis \_ for State and Local Governments issued June 1999.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

### **FINANCIAL HIGHLIGHTS**

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of September 30, 2007 were \$3,260,221. The net assets decreased by \$358,708, a decrease of 10.09% over the prior year. The decrease is primarily due to depreciation and a decrease in unrestricted assets by \$78,688 largely due to revenue short fall.

Operating Revenues - HUD grant and Interest Earnings for the Commission were \$1,026,084 for the year ended September 30, 2007. This was a decrease of \$265,962 or 20.58% from the prior year.

Expenses for the Commission were \$1,384,792 for the year ended September 30, 2007. This was a decrease of \$166,312 or 10.72% from the prior year.

HUD operating grants were \$600,528 for the year ended September 30, 2007. This was a decrease of \$28,716 over the prior year. Capital contributions for the Commission were \$2,500 for the year ended September 30, 2007. This was an decrease of \$199,751 over the prior year. Although the Commission had Capital Fund Programs 2004, 2005, 2006 and 2007 available, it was unable to expend any funds due to change in leadership and the delayed hiring of the Executive Director

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes this *Management Discussion and 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 level financial statements because the Commission only has proprietary funds.

## **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

### **Required Financial Statements**

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all 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 capital structure of the Commission and assessing 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 Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended September 30, 2007 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.

### **Highland Park Housing Commission Programs:**

**Low Rent Public Housing:** Under this program, the Commission rents units that it owns to low-income elderly and family households. This program is operated under and Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Commission to lease these units at a rate that is based on 30% of household income. The Commission has 198 low rent units.

**Capital Fund Programs:** Under this program, the Commission is awarded funds each year to use for Capital Needs. The Commission also has the ability to use to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$3,260,221 at the close of the year ended September 30, 2007 a decrease of \$358,708 from previous fiscal year 2006. The decrease is primarily due to depreciation and reduction in HUD operating revenue and non-implementation of capital fund programs.

The unrestricted net assets were \$52,114 as of September 30, 2007 compared to \$130,802 in 2006, a decrease of 60.16%. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

**CONDENSED STATEMENTS OF NET ASSETS  
SEPTEMBER 30 2007**

						Dollar	Percent
		2007		2006		Change	Change
Current and other assets	\$	161,510	\$	344,497	\$	-182,987	-53.12%
Restricted assets		0		0		0	
Capital assets		3,208,107		3,488,127		-280,020	-8.03%
Total Assets		3,369,617		3,832,624		-463,007	-12.08%
Current liabilities		83,750		159,555		-75,805	-47.51%
Noncurrent liabilities		25,646		54,140		-28,494	-52.63%
Total Liabilities		109,396		213,695		-104,299	-48.81%
Net Assets							
Invested in capital assets		3,208,107		3,488,127		-280,020	-8.03%
Unrestricted		52,114		130,802		-78,688	-60.16%
Total Net Assets	\$	3,260,221	\$	3,618,929	\$	-358,708	-9.91%
Expendable Fund Balance	\$	77,760	\$	184,942	\$	-107,182	-57.95%
No. of Months Expendable Balance		0.77		1.75		-0.98	-56.00%

A 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.

Total Assets for 2007 are \$3,369,617 and for 2006 the amount was \$3,832,624. This represents a decrease of \$463,007 which is due to a substantial decrease in investments. Total Liabilities for 2007 are \$109,396 and for 2006 the amount was \$213,695. This represents a decrease of \$104,299 which is mainly due to reduction in the bank overdraft.

## **FINANCIAL ANALYSIS - Continued**

The expendable fund balance decreased by \$107,182 for the year ended September 30, 2007. The expendable fund balance of a Commission is a measure of the liquidity of the entity. If all of the Commission's current assets, less materials inventory, are converted to cash, and the Commission pays all current liabilities, the amount of cash left on hand is the expendable fund balance.

The number of months expendable fund balance decreased from 1.75 months in 2006 to 0.77 months in 2007. The number of months expendable fund balance is a measure of how many months the Commission could operate under current conditions without any additional income. The number of months of expendable fund balance is calculated by dividing the total expenses for the year, less depreciation, by twelve (12) to arrive at the average monthly expenses. The expendable fund balance is then divided by the average monthly expenses to arrive at the number of months expendable fund balance.

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.

## **OPERATIONAL HIGHLIGHTS**

The Commission continued to receive approval of HUD Capital Fund grant amount, which continue to decline from prior years. However, the Commission has not been able to implement any of the Capital Fund grant amount due to changes in personnel and the delayed hiring process for an Executive Director.

HUD has designated the Commission as "Troubled" and will be leading the Commission thorough process of change to bring the agency into compliance with the many rules and regulations under which it operates. In the process of updating Commission operations and coming into compliance, it has been updating its policies. The Commission continue to receive decreased HUD funding, while the cost pressures in operations and maintenance, insurance, employee benefit continue to rise in double digits. It has become very challenging to maintain and sustain the operations of the Commission due to the financial stress.

**FINANCIAL ANALYSIS (CONTINUED)**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
SEPTEMBER 30, 2007**

	2007	2006	Dollar Change	Percent Change
<b>Revenues and Contributions</b>				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 397,290	\$ 421,258	-23,968	-5.69%
HUD operating grants	600,528	629,244	-28,716	-4.56%
Interest income	4,510	7,272	-2,762	-37.98%
Capital Contributions	2,500	202,251	-199,751	-98.76%
Other Government Grants	0	12,600	-12,600	100.00%
Other income	21,256	19,421	1,835	9.45%
<b>Total Revenues and Contributions</b>	<b>1,026,084</b>	<b>1,292,046</b>	<b>-265,962</b>	<b>-20.58%</b>
<b>Expenses</b>				
Personal services	292,513	236,942	55,571	23.45%
Tenant Services	36,163	54,252	-18,089	-33.34%
Utilities	260,885	306,122	-45,237	-14.78%
Operations and maintenance	293,800	446,817	-153,017	-34.25%
Protective Services	92,930	76,826	16,104	20.96%
General Expenses	128,481	140,442	-11,961	-8.52%
Extraordinary maintenance	0	4,285	-4,285	-100.00%
Loss on sale of fixed assets				0.00%
Depreciation	280,020	285,418	-5,398	-1.89%
<b>Total Expenses</b>	<b>1,384,792</b>	<b>1,551,104</b>	<b>-166,312</b>	<b>-10.72%</b>
<b>Change in net assets</b>	<b>-358,708</b>	<b>-259,058</b>	<b>-99,650</b>	<b>38.47%</b>
<b>Beginning net assets</b>	<b>3,618,929</b>	<b>3,877,490</b>	<b>-258,561</b>	
Prior period error corrections	0	497	-497	
<b>Ending net assets</b>	<b>\$ 3,260,221</b>	<b>\$ 3,618,929</b>	<b>\$ -358,708</b>	

As can be seen in the above table total revenues and contributions decreased by \$265,962 due to a decrease in HUD capital grants not being expended and a small decrease in rental revenue and HUD operating grants.

Total expenses decreased by \$166,312 due to decreases largely in utilities and operations and maintenance.

**CAPITAL ASSETS**

*Capital Assets* - The Highland Park Housing Commission's investment in capital assets, as of September 30, 2007 amounts to \$3,208,107 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

**CAPITAL ASSETS  
NET OF ACCUMULATED DEPRECIATION  
SEPTEMBER 30, 2007**

		2007		2006		Additions
	Land	\$ 122,633		\$ 122,633		\$ ----
	Building	2,034,474		2,034,474		0
	Furniture, equipment and machinery- dwellings	606,256		606,256		
	Furniture, equipment and machinery- administration	65,773		65,773		0
	Building improvements	3,569,927		3,569,927		0
	Construction in progress	153,064		153,064		0
		6,552,127		6,552,127		\$ 0
	Accumulated depreciation	3,344,020		3,064,000		\$ 280,020
	Total	\$ 3,208,107		\$ 3,488,127		\$ -280,020

The Commission experienced a decrease in capital assets for the current fiscal year by \$280,020 in terms of net book value. The Commission has funds available in Capital Fund Programs from 2005 thru 2007 to draw down and spend in the future.

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

The 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 2008 - 2009 Federal budget.

Although the Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, the Commission feels that the federal government will continue to provide us with the funding to continue to provide sage, sanitary, and decent housing to our residents.

**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 concerning any of the information provided in this report or request for additional financial information should be addressed to Ms. Doreen Penny Jamerson, Executive Director; Highland Park Housing Commission, 13725 John R, Highland Park, Michigan 48203.

**HIGHLAND PARK HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 59,475
Investments	54,003
Prepaid Expenses	9,131
Accounts Receivable - Tenants, net	32,420
Inventories, net	6,481
Total current assets	<u>161,510</u>

**Noncurrent Assets:**

<b>Capital assets:</b>	
Land	122,633
Buildings and equipment	6,276,430
Construction in progress	153,064
Accumulated Depreciation	<u>(3,344,020)</u>
Capital Assets, net	3,208,107

Total Assets	<u><u>\$ 3,369,617</u></u>
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The accompanying notes are an integral part of this statement

**HIGHLAND PARK HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007**

**LIABILITIES**

<b>Current Liabilities:</b>	<b>Accounts payable</b> <b>Accrued wage/payroll taxes payable</b> <b>Accrued compensated absences</b> <b>Accrued PILOT</b> <b>Tenant security deposits</b> <b>Deferred revenue</b> <b>Total current liabilities</b>	<b>\$ 23,184</b> <b>17,507</b> <b>8,548</b> <b>11,417</b> <b>23,094</b> <hr/> <b>83,750</b>
<b>Non Current Liabilities</b>	<b>Non current liabilities - other</b> <b>Accrued compensated absences - non current</b> <b>Total Non Current Liabilities</b>	 <b>25,646</b> <hr/> <b>25,646</b>
	<b>Total Liabilities</b>	<hr/> <b>109,396</b>
<b>NET ASSETS</b>	<b>Investment in Capital Assets, Net of related debt</b> <b>Net Assets</b>  <b>Total Net Assets</b>  <b>Total Liabilities and Net Assets</b>	<b>3,208,107</b> <hr/> <b>52,114</b>  <hr/> <b>3,260,221</b>  <hr/> <b>\$ 3,369,617</b>

The accompanying notes are an integral part of this statement

**HIGHLAND PARK HOUSING COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**OPERATING REVENUES:**

Net Tenant Rental Revenue	\$	397,290
HUD PHA Operating Grants		600,528
Miscellaneous		21,256
<b>Total operating revenues</b>		<u>1,019,074</u>

**OPERATING EXPENSES:**

Administrative		292,513
Tenant services		36,162
Utilities		260,885
Maintenance		293,801
Protective services		92,930
General expenses		128,481
Depreciation		280,020
<b>Total operating expenses</b>		<u>1,384,792</u>

<b>Operating income (loss)</b>		<u>(365,718)</u>
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**NONOPERATING REVENUES**

Interest and investment revenue		<u>4,510</u>
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<b>Net income (Loss)</b>		<u>(361,208)</u>
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Capital Grants		2,500
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Change in net assets		<u>(358,708)</u>
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<b>TOTAL NET ASSETS - Beginning</b>		<u>3,618,929</u>
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<b>TOTAL NET ASSETS - Ending</b>	<b>\$</b>	<u><u>3,260,221</u></u>
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The accompanying notes are an integral part of this statement

**HIGHLAND PARK HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from tenants	\$ 390,935
Operating grants received	600,528
Other operating cash receipts	21,256
Cash paid for operating expenditures	(698,393)
Cash paid to employees for services	<u>(502,875)</u>

Net cash used for operating activities	<u>(188,549)</u>
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital Expenditures	(2,500)
Capital Grants Received	<u>2,500</u>
Net cash provided by capital and related financing activities	<u>-</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments	182,080
Interest Income	<u>4,510</u>

Net cash provided by investing activities	186,590
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Net increase (decrease) in Cash and cash equivalents	<u>(1,959)</u>
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Beginning of period cash	<u>61,434</u>
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End of period cash	<u><u>\$ 59,475</u></u>
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The accompanying notes are an integral part of this statement

**HIGHLAND PARK HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**Reconciliation of change in net assets to net cash provided by operating activities:**

<b>Decrease in net assets</b>	<b>\$ (358,708)</b>
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
<b>Depreciation</b>	<b>280,020</b>
<b>Changes in Operating Assets and Liabilities:</b>	
<b>Tenant accounts receivable</b>	<b>(6,355)</b>
<b>Prepays</b>	<b>793</b>
<b>Bank overdraft</b>	<b>(75,177)</b>
<b>Accounts payable</b>	<b>10,501</b>
<b>Accrued liability</b>	<b>(23,337)</b>
<b>Deferred revenue</b>	<b>(2,741)</b>
<b>Tenant security deposits</b>	<b>(4,018)</b>
<b>Other current liabilities</b>	<b>(9,527)</b>
	<b>170,159</b>
<b>Total adjustments</b>	<b>170,159</b>
<b>Net cash provided by operating activities</b>	<b>\$ (188,549)</b>

The accompanying notes are an integral part of this statement

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Highland Park Housing Commission (Housing Commission) is a component unit of the City of Highland Park, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Highland Park on June 16, 1970, consisting of a five member board appointed by the City's mayor. The board's responsibilities include overseeing the Housing Commission's operations, as well as the review and approval of its policies.

The Commission was established 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 generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the propriety 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, in which case, GASB prevails. For enterprise funds, GASB Statements 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.

**Financial Reporting Entity**

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

Primary Government: Highland Park Housing Commission

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.

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Presentation - Continued**

The accounts of the Housing Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. The Housing Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

<b>Program</b>	<b>Brief Description</b>
Low Rent	Accounts for the 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.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing commissions to modernize public housing developments.

**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 positions, 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.

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 is used.

**Assets, Liabilities, 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 disclosure are presented in Notes 2 and 3.

**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 comprise the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Assets, Liabilities, and Equity:**

**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.

**Budgets and Budgetary Accounting**

The 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires the Commission to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Capital Assets**

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

In the financial statements, capital assets purchased or acquired with an original cost of \$500 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 is 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:

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Assets, Liabilities, and Equity:**

**Capital Assets**

Buildings	40 years
Furniture, equipment and machinery	5 – 15 years
Building improvements	15 – 40 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 nonvesting accumulating rights to receive sick pay benefits.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

Vacation leave: The Housing Commission provides leave benefits for its employees based on the policy of the City of Highland Park. The personnel policy provides that, upon termination, employees will be paid all accumulated annual leave at their rate of pay upon termination.

The amount of accumulated benefits at September 30, 2007, was \$34,194, and is recorded as a liability in the applicable programs.

**Equity Classifications**

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

- a. Invested in capital assets, net of related debt: Consists of 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. The Housing Commission had no related debt.
  
- 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.”

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Revenues, Expenditures, and Expenses:**

**Operating Revenues and Expenses**

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

**Interfund transfers**

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

**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:

**Program Accounting Requirements**

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

**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 collateral agreement. As reflected in Note 3, all deposits were fully insured or collateralized.

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - Continued**

**Deposits and Investments Laws and Regulations - Continued**

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.

**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 Restriction of Use</i>
Capital Fund Program	Modernization

**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 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.

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

**NOTE 3: DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS - Continued**

**Cash and Investments**

The composition of cash and investments is as follows:

Cash:	
General Fund Checking Account	\$ 1,593
Payroll Checking	14,102
Laundry Revenue Checking Account	2,540
Petty Cash	<u>250</u>
	18,485
Tenant Security Deposit – Certificate of Deposit	<u>40,990</u>
	<u>\$ 59,475</u>

All Commission cash and equivalent accounts are unrestricted. All restricted investments are in money market accounts.

**Account Receivable**

Receivables detail at September 30, 2007, is as follows:

Tenant accounts receivable	<u>\$32,420</u>
----------------------------	-----------------

Included in tenants receivable is \$25,092 for two former employees. Collection on these balances will be determined by the courts.

HIGHLAND PARK HOUSING COMMISSION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2007

**NOTE 3: DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS - Continued**

**Capital Assets**

Development, Modernization and Land, Structures and Equipment balances at September 30, 2007 consisted of the following:

**Low Rent Program**

	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 122,633	\$ 0	\$ 0	\$ 122,633
Buildings	2,034,474			2,034,474
Furniture & Equipment – Dwellings	606,256			606,256
Furniture & Equipment – Admin Building Improvements	65,773			65,773
	<u>3,569,927</u>	<u>0</u>	<u>0</u>	<u>3,569,927</u>
	6,399,063			6,399,063
Less: Accumulated Depreciation	<u>3,064,000</u>	<u>280,020</u>	<u>0</u>	<u>3,344,020</u>
Total Land, Structures, And Equipment	<u>\$ 3,335,063</u>	<u>\$ 280,020</u>	<u>\$ 0</u>	<u>\$ 3,055,043</u>
<b>Capital Fund Program</b>				
Construction in Progress	<u>\$ 153,064</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 153,064</u>
<b>Combined Totals</b>	<b><u>\$ 3,488,127</u></b>	<b><u>\$ 280,020</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 3,208,107</u></b>

**NOTE 4 – ECONOMIC DEPENDENCY**

The Commission receives the majority of the funds used for housing projects from the U.S. Department of Housing and Urban Development.

**HIGHLAND PARK HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 – RISK MANAGEMENT**

In the normal course of business, the Highland Park Housing Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Commission carries commercial insurance.

**NOTE 6 – GRANTS**

The Commission participates in federal grant programs, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Commission has not complied with the rules and regulations governing, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2007 may be impaired. In the opinion of the Commission, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying general purpose financial statements for such contingencies. The Commission is subject to possible examination by Federal authorities that determine compliance with terms, conditions, laws and regulations governing grants given to the Commission in the current and prior years.

## **SUPPLEMENTARY DATA**

HIGHLAND PARK HOUSING COMMISSION  
 FINANCIAL DATA SCHEDULE  
 SEPTEMBER 30, 2007

Financial Data Schedule - Balance Sheet

Line Item #	Account Description	Low Rent 14-8504	CFP 14-872	TOTAL
	<b>ASSETS:</b>			
	<b>CURRENT ASSETS:</b>			
	<b>Cash:</b>			
111	Cash - unrestricted	18,485		18,485
112	Cash - restricted - modernization and development			-
113	Cash - other restricted			-
114	Cash - tenant security deposits	40,990		40,990
115	Cash - restricted for payment of current liability			-
100	Total cash	59,475	-	59,475
	<b>Accounts and notes receivables:</b>			
121	Accounts receivable - PHA projects			-
122	Accounts receivable - HUD other projects			-
124	Accounts receivable - other government			-
125	Accounts receivable - miscellaneous			-
126	Accounts receivable- tenants - dwelling rents	32,420		32,420
126.1	Allowance for doubtful accounts - dwelling rents			-
126.2	Allowance for doubtful accounts - other			-
127	Notes, loans & mortgages receivable - current			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivable			-
120	Total receivables, net of allowances for doubtful accounts	32,420	-	32,420
	<b>Current Investments</b>			
131	Investments - unrestricted	54,003		54,003
132	Investments - restricted			-
135	Investments -restricted for payment of current liability			-
142	Prepaid expenses and other assets	9,131		9,131
143	Inventories	6,481		6,481
143.1	Allowance for obsolete inventories			-
144	Interprogram - due from			-
145	Assets held for sale			-
146	Amounts to be provided			-
150	TOTAL CURRENT ASSETS	161,510	-	161,510
	<b>NONCURRENT ASSETS:</b>			
	<b>Fixed assets:</b>			
161	Land	122,633		122,633
162	Buildings	2,034,474		2,034,474
163	Furniture, equipment & machinery - dwellings	606,256		606,256
164	Furniture, equipment & machinery - administration	65,773		65,773
165	Leasehold improvements	3,569,927		3,569,927
168	Infrastructure			-
166	Accumulated depreciation	(3,344,020)		(3,344,020)
167	Construction in progress		153,064	153,064
160	Total fixed assets, net of accumulated depreciation	3,055,043	153,064	3,208,107
	<b>Other Non Current Assets</b>			
171	Notes, loans & mortgages receivable - non current			-
172	Notes, loans & mortgages receivable - non current -past due			-
173	Grants Receivable - non current			-
174	Other assets			-
176	Investment in joint ventures			-
180	TOTAL NONCURRENT ASSETS	3,055,043	153,064	3,208,107
190	TOTAL ASSETS	3,216,553	153,064	3,369,617
	<b>LIABILITIES AND EQUITY:</b>			
	<b>LIABILITIES:</b>			
	<b>Current Liabilities</b>			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	23,184		23,184

HIGHLAND PARK HOUSING COMMISSION  
FINANCIAL DATA SCHEDULE  
SEPTEMBER 30, 2007

**Financial Data Schedule - Balance Sheet**

Line Item #	Account Description	Low Rent 14,850	CFP 14,872	TOTAL
313	Accounts payable > 90 days past due			-
321	Accrued wage/payroll taxes payable	17,507		17,507
322	Accrued compensated absences - current portion	8,548		8,548
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA programs			-
332	Accounts Payable - PHA Projects			-
333	Accounts payable - other government	11,417		11,417
341	Tenant security deposits	23,094		23,094
342	Deferred revenues			-
343	Current portion of Long-Term debt - capital projects/mortgage revenue bonds			-
344	Current portion of Long-Term debt - operating borrowings			-
345	Other current liabilities			-
346	Accrued liabilities - other			-
347	Inter-program - due to			-
348	Loan Liability - current			-
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>83,750</b>	<b>-</b>	<b>83,750</b>
	<b>Non Current Liabilities</b>			
351	Long-term debt, net of current- capital projects/ mortgage revenue bonds			-
352	Long-term debt, net of current- operating borrowings			-
353	Noncurrent liabilities- other			-
354	Accrued Compensated Absences - non current	25,646		25,646
355	Loan Liability - non current			-
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>25,646</b>	<b>-</b>	<b>25,646</b>
300	<b>TOTAL LIABILITIES</b>	<b>109,396</b>	<b>-</b>	<b>109,396</b>
	<b>EQUITY:</b>			
501	Investment in general fixed assets			-
	<b>Contributed Capital:</b>			
502	Project notes (HUD)			-
503	Long-term debt - HUD guaranteed			-
504	Net HUD PHA contributions			-
505	Other HUD contributions			-
507	Other contributions			-
508	Total contributed capital			-
508.1	Invested in Capital Assets, Net of Related Debt	3,055,043	153,064	3,208,107
	<b>Reserved fund balance:</b>			
509	Reserved for operating activities			-
510	Reserved for capital activities			-
511	Total reserved fund balance			-
511.1	Restricted Net Assets			-
512	Undesignated fund balance/retained earnings			-
512.1	Unrestricted Net Assets	52,114		52,114
513	<b>TOTAL EQUITY/NET ASSETS</b>	<b>3,107,157</b>	<b>153,064</b>	<b>3,260,221</b>
600	<b>TOTAL LIABILITIES and EQUITY/NET ASSETS</b>	<b>3,216,553</b>	<b>153,064</b>	<b>3,369,617</b>

HIGHLAND PARK HOUSING COMMISSION  
FINANCIAL DATA SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

**Financial Data Schedule - Revenue & Expenses**

	<b>Account Description</b>	<b>Low Rent 14.850a</b>	<b>CFP</b>	<b>14.872</b>	<b>TOTAL</b>
	<b>REVENUE:</b>				
703	Net tenant rental revenue	397,290			397,290
704	Tenant revenue - other				-
<b>705</b>	<b>Total tenant revenue</b>	<b>397,290</b>	<b>-</b>		<b>397,290</b>
706	HUD PHA operating grants	600,528	2,500		603,028
706.1	Capital Grants				-
708	Other government grants				-
711	Investment income - unrestricted	4,510			4,510
712	Mortgage interest income				-
713	Proceeds from disposition of assets held for sale				-
713.1	Cost of sale of assets				-
714	Fraud recovery				-
715	Other revenue	21,256			21,256
716	Gain or loss on the sale of fixed assets				-
720	Investment income - restricted				-
<b>700</b>	<b>TOTAL REVENUE</b>	<b>1,023,584</b>	<b>2,500</b>		<b>1,026,084</b>
	<b>EXPENSES:</b>				
	<b>Administrative</b>				
911	Administrative salaries	73,870			73,870
912	Auditing fees	7,900			7,900
913	Outside management fees				-
914	Compensated absences	25,290			25,290
915	Employee benefit contributions- administrative	130,142			130,142
916	Other operating- administrative	55,311			55,311
	Subtotal	292,513	-		292,513
	<b>Tenant services</b>				
921	Tenant services - salaries	31,455			31,455
922	Relocation costs				-
923	Employee benefit contributions- tenant services	4,708			4,708
924	Tenant services - other				-
	Subtotal	36,163			36,163
	<b>Utilities</b>				
931	Water	146,651			146,651
932	Electricity	85,394			85,394
933	Gas	28,840			28,840
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense				-
	Subtotal	260,885	-		260,885
	<b>Ordinary maintenance &amp; operation</b>				
941	Ordinary maintenance and operations - labor	113,483			113,483
942	Ordinary maintenance and operations - materials & other	47,197			47,197
943	Ordinary maintenance and operations - contract costs	114,770	2,500		117,270
945	Employee benefit contributions- ordinary maintenance	15,850			15,850
	Subtotal	291,300	2,500		293,800
	<b>Protective services</b>				
951	Protective services - labor	74,596			74,596
952	Protective services- other contract costs	7,380			7,380
953	Protective services - other	5,937			5,937

HIGHLAND PARK HOUSING COMMISSION  
FINANCIAL DATA SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

## Financial Data Schedule - Revenue & Expenses

Account Description	Low Rent 14,850a	CFP	14,872	TOTAL
955 Employee benefit contributions- protective services	5,017			5,017
Subtotal	92,930	-		92,930
<b>General expenses</b>				
961 Insurance premiums	105,501			105,501
962 Other General Expenses				-
963 Payments in lieu of taxes	8,283			8,283
964 Bad debt - tenant rents	14,697			14,697
965 Bad debt- mortgages				-
966 Bad debt - other				-
967 Interest expense				-
968 Severance expense				-
Subtotal	128,481	-		128,481
<b>969 TOTAL OPERATING EXPENSES</b>	<b>1,102,272</b>	<b>2,500</b>		<b>1,104,772</b>
<b>970 EXCESS OPERATING REVENUE OVER OPERATING EXPENSES</b>	<b>(78,688)</b>	<b>-</b>		<b>(78,688)</b>
971 Extraordinary maintenance				-
972 Casualty losses - non-capitalized				-
973 Housing assistance payments				-
974 Depreciation expense	280,020			280,020
975 Fraud losses				-
976 Capital outlays- governmental funds				-
977 Debt principal payment- governmental funds				-
978 Dwelling units rent expense				-
<b>900 TOTAL EXPENSES</b>	<b>1,382,292</b>	<b>2,500</b>		<b>1,384,792</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
1001 Operating transfers in				-
1002 Operating transfers out				-
1003 Operating transfers from/to primary government				-
1004 Prior Period Adjustments, Equity/Net Assets				-
1005 Proceeds from notes, loans and bonds				-
1006 Proceeds from property sales				-
1007 Extraordinary Items (net gain/loss)				-
1008 Special Items (net gain/loss)				-
<b>1010 TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>1000 EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES</b>	<b>(358,708)</b>	<b>-</b>		<b>(358,708)</b>
<b>MEMO account information</b>				
1101 Capital contributions				-
1102 Debt principal payments- enterprise funds				-
1103 Beginning equity	3,465,865		153,064	3,618,929
1104 Prior period adjustments, equity transfers and correction of errors				-
1105 Changes in compensated absence liability balance (in the GLTDAG)				-
1106 Changes in contingent liability balance (in the GLTDAG)				-
1107 Changes in unrecognized pension transition liability (in the GLTDAG)				-
1108 Changes in special term/severance benefits liability (in the GLTDAG)				-
1109 Changes in allowance for doubtful accounts - dwelling rents				-
1110 Changes in allowance for doubtful accounts - other				-

HIGHLAND PARK HOUSING COMMISSION  
 FINANCIAL DATA SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

**Financial Data Schedule - Revenue & Expenses**

	<b>Account Description</b>	<b>Low Rent 14.850a</b>	<b>CFP</b>	<b>14.872</b>	<b>TOTAL</b>
1112	Depreciation "add back"				-
1113	Maximum annual contributions commitment (per ACC)				-
1114	Prorata maximum annual contributions applicable to a period of less than twelve months				-
1115	Contingency reserve, ACC program reserve				-
1116	Total annual contributions available				-
1120	Unit months available	2,400			2,400
1121	Number of unit months leased	1,752			1,752

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## **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**

June 26, 2008

Board of Commissioners  
Highland Park Housing Commission  
Highland Park, Michigan

Department of Housing &  
Urban Development  
Office of Public Housing  
Detroit, Michigan

We have audited the financial statements of the Highland Park Housing Commission as of and for the year ended September 30, 2007 and have issued our report thereon dated June 26, 2008. We conducted our 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 our audit, we considered the Highland Park Housing Commission's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Highland Park Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Highland Park Housing Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See finding 07-1.

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 entity's internal control.

Our 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 to be material weaknesses.

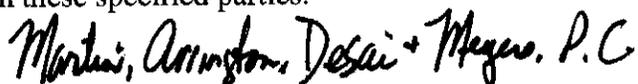
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Highland Park Housing Commission's general purpose financial statements are free of material misstatement, we 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under "Government Auditing Standards" and which are described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3.

We noted certain matters that we reported to management of the Highland Park Housing Commission in a separate letter dated June 30, 2008.

Highland Park Housing Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Highland Park Housing Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Martin, Arrington, Desai & Meyers, P. C.  
Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 26, 2008

Board of Commissioners  
Highland Park Housing Commission  
Highland Park, Michigan

Department of Housing &  
Urban Development  
Office of Public Housing  
Detroit, Michigan

### Compliance

We have audited the compliance of the Highland Park 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, 2007. The Highland Park 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 Highland Park Housing Commission's management. Our responsibility is to express an opinion on Highland Park Housing Commission's compliance based on our audit.

We conducted our 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 we 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 Highland Park Housing Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Highland Park Housing Commission's compliance with those requirements.

As described in item 07-2 in the accompanying schedule of findings and questioned costs, Highland Park Housing Commission did not comply with requirements regarding eligibility that are applicable to its Low Housing Program. Compliance with such requirements is necessary, in our opinion, for Highland Park Housing Commission to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Highland Park Housing Commission did not comply 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.

### Internal Control Over Compliance

The management of the Highland Park Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Highland Park Housing Commission'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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Highland Park Housing Commission's internal control over compliance.

Our consideration of the 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 as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-2 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the

accompanying schedule of findings and questioned costs, we consider items 07-2 and 07-3 to be material weaknesses.

Highland Park Housing Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Highland Park Housing Commission's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Highland Park Housing Commission as of and for the year ended September 30, 2007, and have issued our report thereon dated June 26, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management and the Department of Housing and Urban Development.



Martin, Arrington, Desai & Meyers, P. C.  
Certified Public Accountants

**HIGHLAND PARK HOUSING COMMISSION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 SEPTEMBER 30, 2007**

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA/AGENCY NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>Department of Housing and Urban Development</u>		
<b>Major Program:</b>		
Operating Subsidy	14.850a	\$ 600,528
<b>Non-Major Program:</b>		
Capital Fund Program	14.872	<u>2,500</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 603,028</u>

HIGHLAND PARK HOUSING COMMISSION  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Highland Park Housing Commission and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**HIGHLAND PARK HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2007**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued a qualified opinion

Internal control over financial reporting:

- Material weakness identified – Yes
- Significant deficiencies identified that are not considered to be material weaknesses No

Noncompliance material to financial statements noted? Yes

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified Yes
- Significant deficiencies identified that are not considered to be material weaknesses No

Type of auditor’s report issued on compliance for major programs – Adverse

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

<u>Programs</u>	<u>C.F.D.A./ Agency Number</u>
a. Low Rent Public Housing	14.850a

Dollar threshold for distinguishing Types A and B programs was \$300,000.

The Highland Park Housing Commission was determined to be a high-risk auditee.

**HIGHLAND PARK HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2007**

**Section II – Financial Statement Findings**

**Finding 07-1: Bank reconciliations and subsidiary schedules – material weakness**

*Statement of Condition:* We noted unidentified differences in general and payroll bank reconciliations. Subsidiary schedules for balance sheet accounts do not agree to the general ledger or are nonexistent.

*Criteria:* Bank reconciliations and subsidiary schedules should agree to the general ledger.

*Effect:* Lack of proper records could lead to disallowance of costs.

*Cause of Condition:* No in-house accountant or at least a review of reconciliations and subsidiary schedules to the general ledger performed.

*Recommendation:* We recommend that the bank reconciliations and balance sheet subsidiary schedules be reviewed to ensure that balances agree to the general ledger.

**Section III – Federal Award Findings and Questioned Costs**

**Finding 07-2: Tenant files noncompliance**

*Statement of Condition:* Seven out of twenty four tenant files tested to determine eligibility is missing documentation or the documentation is incorrect in the tenant files.

*Criteria:* Specific documentation is required to be maintained in the tenant's file in order to determine eligibility.

*Effect:* Lack of proper documentation in tenant file could lead to questioned costs.

*Cause of Condition:* Staff in charge of the Low Rent Housing Program did not obtain all of the documentation or they did not make sure it was complete and correct.

*Effect:* Lack of proper documentation in tenant file could lead to questioned costs.

*Recommendation:* We recommend that the Housing Commission review and correct all tenant files to ensure that the proper documentation is accurate.

**HIGHLAND PARK HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2007**

**Finding 07-3: Missing tenant files – material weakness**

*Statement of Condition:* Six tenant files could not be located for compliance testing.

*Criteria:* A file for each tenant must be maintained by the Housing Commission.

*Effect:* Missing tenant files could lead to allegations of fraud.

*Cause of Condition:* The Housing Commission was going through a drastic change in personnel. The staff was not aware that files were misplaced.

*Questioned Costs:* Approximately \$15,000

*Recommendation:* The responsible employee should be reminded of the procedures in place to ensure proper tenant file maintenance. The tenant listing should be compared to the tenant files.

HIGHLAND PARK HOUSING COMMISSION  
STATUS OF PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2007

**Finding 06-1:** Year Ended September 30, 2006

*Criteria:*

The Housing Commission is required to submit the “unaudited” financial data schedule (FDS) to HUD’s Real Estate Assessment Center (REAC) within 60 days of the fiscal year end.

*Recommendation:*

It was recommended that the Housing Commission contract a fee accountant and/or file the submission a few days before the deadline.

*Current Status:*

The September 30, 2007 “unaudited” financial data schedule was filed on time.

**Finding 06-2:** Year Ended September 30, 2006

*Criteria:*

The Highland Park Housing Commission has not in recent years been required to prepare a budget that would need HUD’s approval.

*Recommendation:*

It was recommended that a fee accountant be contracted.

*Current Status:*

A fee accountant was contracted.

HIGHLAND PARK HOUSING COMMISSION  
STATUS OF PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2007

**Finding 06-3:** September 30, 2006

*Criteria:*

Illegal or unauthorized expenditures are defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). Some of the unallowable expenditures mentioned are contributions to nonprofit organizations and donation to community organizations. Also, OMB Circular A-87 (effective August 31, 2005, 2 CFR Part 225) describes when public relations costs are allowable and that donations and contributions are unallowable under Appendix B to Part 225 (1) and (12).

*Recommendation:*

Less expensive alternatives to public relations to promote the Housing Commission should be explored.

*Current Status:*

No public relations expenditures were expended in fiscal year September 30, 2007.

**Finding 06-4:** Year Ended September 30, 2006

*Criteria:*

Public Housing Assessment System (PHAS) Management Operations Certification, HUD Form 500072 (OMB No. 2535-0106) – HUD primarily measures housing agencies' management performance through the management operations indicators of its PHAS. This system requires annual electronic filing. PHAS assists HUD in: (a) assisting housing agencies and holding them accountable for providing safe and decent housing and (b) protecting the Federal investment in their properties.

PHAS regulations are at 24 CFR part 902.

*Recommendation:*

It was recommended that the Housing Commission maintain a separate file to support all of the certifications on PHAS filing.

*Current Status:*

The Housing Commission is maintaining a separate file.

HIGHLAND PARK HOUSING COMMISSION  
STATUS OF PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2007

**Finding 06-5:** Year Ended September 30, 2006

*Condition and Criteria:*

Documentation to determine eligibility is missing or incorrect in the tenant files.

*Recommendation:*

It was recommended that the Housing Commission correct the documentation in the tenant files.

*Current Status:*

This finding is still active.

**Finding 06-6:** Year Ended September 30, 2006

*Condition and Criteria:*

The criminal background check was in 8 of the 9 tenant files tested.

*Recommendation:*

It was recommended that the staff remove the criminal background checks from all the tenant files.

*Current Status:*

All criminal background checks were removed from the tenant files.

**Finding 06-7:** Year Ended September 30, 2006

*Condition and Criteria:*

During testing of the tenant files, it was discovered that there were not correct and proper verifications of income, expense and assets.

HIGHLAND PARK HOUSING COMMISSION  
STATUS OF PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2007

*Recommendation:*

It was recommended that the Housing Commission obtain properly completed annual questionnaires from the tenants before their annual review.

*Current Status:*

Tenant file documentation still needs to be addressed.

**Finding 06-8:** Year Ended September 30, 2006

*Condition and Criteria:*

There is no evidence that applicants are being checked for previous evictions from public housing.

*Recommendation:*

It was recommended that the Housing Commission put in place a process to check applicants for previous evictions from public housing.

*Current Status:*

This finding is still open.

**Finding 06-9:** Year Ended September 30, 2006

*Condition and Criteria:*

The Highland Park Housing Commission did not have correct and complete documentation showing the tenant's selection of income based or flat rent.

*Recommendation:*

It is recommended that the Housing Commission make sure that it obtains complete and correct documentation of the tenants choice of income based or flat rent.

*Current Status:*

This finding appears to have been cleared.

HIGHLAND PARK HOUSING COMMISSION  
STATUS OF PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2007

**Finding 06-10:** Year Ended September 30, 2006

*Condition and Criteria:*

Additional required documentation was missing in the tenant files.

*Recommendation:*

It was recommended that the proper documentation be obtained and maintained in the tenant files.

*Current Status:*

This finding is still active.

**Finding 06-11:** Year Ended September 30, 2006

*Conditions and Criteria:*

There was not any documentation available to indicate that an up to date utility allowance schedule was used.

*Recommendation:*

It was recommended that the Housing Commission obtain a utility study and update the utility allowance.

*Current Status:*

The Housing Commission has updated the utility allowance schedule.

HIGHLAND PARK HOUSING COMMISSION  
CORRECTIVE ACTION PLAN  
SEPTEMBER 30, 2007

Action for Finding 07-1

The Highland Park Housing Commission has hired Ravi Yalamanchi as a Fee Accountant to perform account management services for the agency. We have also purchased new accounting software that will also assist us in performing other basic accounting and bookkeeping functions.

Action for Finding 07-2 and 07-3

The Highland Park Housing Commission has had numerous audits as well as personnel changes. We are focusing on cleaning up and re-organizing the office and its files. We have limited who can access the files and put them in a locked cabinet. We have also instituted a sign-in/sign-out policy for people to sign if they have to view a tenant file.