MUSKEGON HEIGHTS HOUSING COMMISSION
MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	Muskegon Heights Housing Commission	Muskegon

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
3/31/04	11/18/04	11/28/04

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name)	Barry E. Gaudette, CPA, PC		
Street Address: 1107 E. 8th Street	City: Traverse	State: MI	ZIP: 49686
Accountant Signature: Barry E. Gaudette, CPA			

MUSKEGON HEIGHTS HOUSING COMMISSION

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INTRODUCTION

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

Board of Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the Muskegon Heights Housing Commission, Michigan as of March 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon Heights Housing Commission, Michigan, as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2004 on our consideration of Muskegon Heights Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Barry E Tandetti, PA, PC

November 18, 2004

FINANCIAL STATEMENTS

MUSKEGON HEIGHTS HOUSING COMMISSION

COMBINED BALANCE SHEET

March 31, 2004

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ASSETS

Current Assets:	
Cash	$ 218,310
Accounts receivable-HUD	95,965
Accounts receivable-tenants	56,045
Allowance for doubtful accounts	(38,849)
Prepaid expenses	37,262
Inventories	500
Due from other programs	229,670
Total Current Assets	598,903
Property, Plant, and Equipment:	
Land	1,402,031
Buildings	7,396,484
Equipment	418,883
Building improvements	7,783,618
Construction in progress	1,277,447
	18,278,463
Less: accumulated depreciation	(11,049,451)
Net Property, Plant, and Equipment	7,229,012
Total Assets	$ 7,827,915

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINED BALANCE SHEET (CONTINUED)
March 31, 2004

LIABILITIES and EQUITY

Current Liabilities:	
Accounts payable	$ 319,904
Tenant security deposit liability	41,951
Accrued expenses	47,874
Other current liabilities	3,328
Due to other programs	229,670
Total Current Liabilities	642,727
Equity:	
Contributed capital-HUD	5,149,833
Undesignated retained earnings	2,035,355
Total Equity	7,185,188
Total Liabilities and Equity	$ 7,827,915

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN EQUITY

Year Ended March 31, 2004

OPERATING REVENUES:	
Dwelling rent	$ 711,027
Non-dwelling rent	10
Total operating revenues	711,037
OPERATING EXPENSES:	
Administration	578,219
Tenant services	32,274
Utilities	372,415
Ordinary maintenance and operation	533,595
General expenses	134,878
Casualty losses	(8,936)
Housing assistance payments	143,216
Depreciation	742,545
Total operating expenses	2,528,206
Operating income(loss)	(1,817,169)
NONOPERATING REVENUES AND (EXPENSES):	
Investment interest income	1,172
Other income	16,532
Capital grants	744,379
Operating grants	899,538
Total nonoperating revenues(expenses)	1,661,621
Net income(loss)	(155,548)
Prior period adjustments, equity transfers and correction of errors	21,172
Equity, beginning	7,319,564
Equity, ending	$ 7,185,188

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2004

Cash flows from operating activities:	
Operating(loss)	$(1,817,169)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	742,545
Bad debt allowance	28,907
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	(30,228)
Due from other programs	(58,083)
Prepaid expenses	(4,334)
Increase (decrease) in liabilities:	
Accounts payable-operations	(14,984)
Accounts payable-PILOT	33,862
Tenant security deposits	(2,046)
Other current liabilities	3,328
Due to other programs	58,083
Net cash (used in) operating activities	(1,060,119)
Cash flows from noncapital and financing activities:	
Operating grants	1,007,076
Other revenue	16,532
Net cash provided by noncapital and financing activities	1,023,608
Cash flows from capital and related financing activities:	
Capital grants	744,379
Payments for capital acquisitions	(720,146)
Net cash provided by capital and related financing activities	24,233

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004

Cash flows from investing activities:	
Receipts of interest and dividends	1,172
Net cash provided by investing activities	1,172
Net increase(decrease) in cash	(11,106)
Cash, beginning	229,416
Cash, ending	$ 218,310

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	$ 218,310
Restricted cash	
Cash and cash equivalents per balance sheet	$ 218,310

See notes to financial statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Muskegon Heights Housing Commission. The Muskegon Heights Housing Commission is a component unit of the City of Muskegon Heights, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Muskegon Heights in 1941, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Heights Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development(HUD). Under Contract - C-3018, the Housing Commission constructed, maintains and operates 348 units of subsidized housing in the City of Muskegon Heights, Michigan. Under Contract, the Housing Commission manages a Housing Choice Voucher program of subsidies for 50 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, 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, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

providing services including capital costs(such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported equity is segregated into contributed capital and retained earning components. Operating statements present increases(revenues) and decreases(expenses) in equity.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Muskegon Heights has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the balance sheet.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of $100 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Buildings and land improvements	15 years
Automotive and computers	5 years
Furniture, equipment and machinery	10 years

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity

The Housing Commission classifies its equity as follows:

a. Contributed capital represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.

b. Unreserved retained earnings indicate that portion of equity which is available for use in future periods.

Inventory

Inventory is priced using the average cost method.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to contributed capital rather than retained earnings.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

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

* Vacation leave. An employee may accrue vacation leave up to a maximum of two(2) times the amount earned in a year. Except for the Executive Director, unused vacation time in excess of the maximum amount will be forfeited.

  Any regular employee leaving the Housing Commission, except if

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave (Continued)

* Vacation leave continued:

  terminated for cause, will be compensated for vacation leave credited and unused up to the date of his/her separation or resignation, provided he/she is given two(2) weeks notice of his/her intention to leave the Housing Commission.

* Sick leave without pay may be accumulated without limit. In the event of separation or termination, except for termination with cause, an employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.

* There are other various types of leave available, but none of the unused leave can be accumulated.

The amount of accumulated benefits at March 31, 2004, was $47,874, and is recorded as a liability in the applicable funds.

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 home rule City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

NOTE 2: CASH AND INVESTMENTS (Continued)

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the March 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

	Depository Balances by Category				
Depository	1	2	3	Total	Carrying Value
Comerica Bank	$ 10,377	$	$	$ 10,377	$ 4,625
Bank One	200,000		36,812	236,812	213,585
Total Deposits	$210,377	$	$ 36,812	$247,189	218,210
Petty cash					100
					$218,310

Reconciliation to Cash on Balance Sheet

Cash	$218,310

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2004, the receivables were $56,045 with $38,849 estimated as uncollectible. Bad debt expense was $25,738.

Accounts Payable - HUD

Amounts due to HUD represent funding due from the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2004 were as follows:

Capital Fund Program	$ 10,219
Drug Elimination Program	85,746
	$ 95,965

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
Low Rent Program	$ 94,452	Low Rent Program	$ 135,218
Housing Choice Vouchers	135,218	Capital Fund Program	10,219
		Drug Elimination Prog.	84,233
	$ 229,670		$ 229,670

Individual fund operating transfers during the fiscal year ended are as follows:

Receiving Fund	Paying Fund	Amount
Low Rent Program	Capital Fund Program	$ -

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2004 was as follows:

	Balance 03/31/03	Additions/ Transfers	Retirements/ Transfers	Balance 03/31/04
Low Rent Program				
Land	$ 1,402,031	$	$	$ 1,402,031
Buildings	7,396,484			7,396,484
Furniture, equip. & machinery - dwellings	21,713	121,301		143,014
Furniture, equip. & machinery - administration	139,443	60,596		200,039
Building improvements	5,222,108	2,561,510		7,783,618
	14,181,779	$ 2,743,407	$	16,925,186
Less accumulated depreciation	(9,722,190)	$(1,319,678)	$	(11,041,868)
Total	$ 4,459,589			$ 5,883,318
Capital Fund Program				
Furniture, equip. & machinery - administration	$	$ 75,830	$	$ 75,830
Construction in progress	608,898	668,549		1,277,447
	608,898	$ 744,379	$	1,353,277
Less accumulated depreciation		$(7,583)	$	(7,583)
Total	$ 608,898			$ 1,345,694

NOTE 4: CAPITAL ASSETS (Continued)

	Balance 03/31/03	Additions/ Transfers	Retirements/ Transfers	Balance 03/31/04
Comprehensive Grant Program				
Furniture, equip. & machinery - dwellings	$ 121,301	$	$ 121,301	$
Furniture, equip. & machinery - administration	60,595		60,595	
Building improvements	2,563,350		2,563,350	
	2,745,246	$	$ 2,745,246	
Less accumulated depreciation	(583,494)	$	$ 583,494	
Net fixed assets	$2,161,752			$

NOTE 5: CONTRIBUTED CAPITAL

The following is a summary of the activity in the Contributed Capital accounts:

	Net HUD PHA Contributions
Balance, beginning	$ 4,771,377
Adjustment	378,456
Balance, ending	$ 5,149,833

NOTE 6: POST EMPLOYMENT BENEFITS

The Muskegon Heights Housing Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS) (through the City of Muskegon Heights). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. The City of Muskegon Heights has a copy of the pension plan for the year ended December 31, 2003, which was unavailable to the Housing Commission. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 9: SUBSEQUENT EVENTS

The Housing Commission has been discussing with the City of Muskegon Heights formalizing a separation from the City. As of the date of this audit report there has not been a vote by the City of Muskegon Heights to approve or disapprove the separation.

NOTE 10: CONTINGENT LIABILITIES

The City of Muskegon Heights has billed the Housing Commission for just over $72,000 in outstanding charges dating back to 1996. The Housing Commission is disputing this bill.

NOTE 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended March 31, 2004, was as follows:

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers	Drug Elimination Program
Operating revenues	$ 711,037	$	$	$
Operating expenses	2,171,363	113,122	156,090	87,631
Operating(loss)	(1,460,326)	(113,122)	(156,090)	(87,631)
Depreciation	734,962	7,583		
Operating grants	540,562	105,539	165,806	87,631
Capital grants		744,379		
Other income	16,532			
Net income(loss)	(902,441)	(963,040)	10,097	
Plant, property, and equipment:				
Additions		744,379		
Deletions	(1,839)			
Working capital	(100,724)		56,900	
Total assets	6,213,877	1,355,913	172,379	85,746
Change in net assets	1,280,483	736,796	10,097	
Beginning net assets	4,502,111	608,898	46,803	
Ending net assets	5,782,594	1,345,694	56,900	

NOTE 12: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND CORRECTION OF ERRORS

Low Rent Program	
Reclassify cost from CFP	$ 24,234
Adjust depreciation expense-prior year	(3,062)
Transfer closed comp grant programs	2,161,752
	$ 2,182,924
Comprehensive Grant Program	
Transfer to Public Housing	$(2,161,752)

SUPPLEMENTARY INFORMATION

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING BALANCE SHEET
March 31, 2004

	C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
ASSETS		
Current assets:		
Cash	$ 181,149	$
Accounts receivable-HUD other projects		10,219
Accounts receivable-tenants	56,045	
Allowance for doubtful accounts	(38,849)	
Prepaid expenses	37,262	
Inventories	500	
Due from other programs	94,452	
Total current assets	330,559	10,219
Property, plant, and equipment:		
Land	1,402,031	
Buildings	7,396,484	
Equipment	343,053	75,830
Building improvements	7,783,618	
Construction in progress		1,277,447
	16,925,186	1,353,277
Less accumulated depreciation	(11,041,868)	(7,583)
Net property, plant and equipment	5,883,318	1,345,694
Total Assets	$ 6,213,877	$1,355,913

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$ 37,161	$	$ 218,310
		85,746	95,965
			56,045
			(38,849)
			37,262
			500
	135,218		229,670
	172,379	85,746	598,903
			1,402,031
			7,396,484
			418,883
			7,783,618
			1,277,447
			18,278,463
			(11,049,451)
			7,229,012
$	$ 172,379	$ 85,746	$ 7,827,915

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING BALANCE SHEET (Continued)
March 31, 2004

	C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
LIABILITIES and EQUITY		
Current liabilities:		
Accounts payable	$ 202,912	$
Tenant security deposit liability	41,951	
Accrued expenses	47,874	
Other current liabilities	3,328	
Due to other programs	135,218	10,219
Total current liabilities	431,283	10,219
Equity:		
Contributed capital - HUD	5,149,833	
Undesignated retained earnings	632,761	1,345,694
Total equity	5,782,594	1,345,694
Total Liabilities and Equity	$6,213,877	$1,355,913

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$ 115,479	$ 1,513	$ 319,904
			41,951
			47,874
			3,328
		84,233	229,670
	115,479	85,746	642,727
			5,149,833
	56,900		2,035,355
	56,900		7,185,188
$	$ 172,379	$ 85,746	$ 7,827,915

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN EQUITY
Year Ended March 31, 2004

	C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
OPERATING REVENUES:		
Dwelling rent	$ 711,027	$
Nondwelling rent	10	
Total operating revenues	711,037	
OPERATING EXPENSES:		
Administration	459,806	105,539
Tenant services	32,274	
Utilities	372,415	
Ordinary maintenance and operation	445,964	
General expenses	134,878	
Casualty losses	(8,936)	
Housing assistance payments		
Depreciation	734,962	7,583
Total operating expenses	2,171,363	113,122
Operating income(loss)	(1,460,326)	(113,122)
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	791	
Other income	16,532	
Capital grants		744,379
Operating grants	540,562	105,539
Total nonoperating revenues (expenses)	557,885	849,918
Net income(loss)	(902,441)	736,796
Prior period adjustments, equity transfers and correction of errors	2,182,924	
Equity, beginning	4,502,111	608,898
Equity, ending	$5,782,594	$1,345,694

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$	$	$ 711,027
			10
			711,037
	12,874		578,219
			32,274
			372,415
		87,631	533,595
			134,878
			(8,936)
	143,216		143,216
			742,545
	156,090	87,631	2,528,206
	(156,090)	(87,631)	(1,817,169)
	381		1,172
			16,532
			744,379
	165,806	87,631	899,538
	166,187	87,631	1,661,621
	10,097		(155,548)
(2,161,752)			21,172
2,161,752	46,803		7,319,564
$	$ 56,900	$	$ 7,185,188

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended March 31, 2004

	C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
Cash flows from operating activities:		
Operating(loss)	$(1,460,326)	$(113,122)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	734,962	7,583
Bad debt allowance	28,907	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(30,228)	
Due from other programs	17,876	
Prepaid expenses	(4,334)	
Increase (decrease) in liabilities:		
Accounts payable-operations	(16,497)	
Accounts payable-PILOT	33,862	
Tenant security deposits	(2,046)	
Other current liabilities	3,328	
Due to other programs	75,959	(102,109)
Net cash (used in) operating activities	(618,537)	(207,648)
Cash flows from noncapital and financing activities:		
Operating grants	604,243	207,648
Other revenue	16,532	
Net cash provided by noncapital and financing activities	620,775	207,648
Cash flows from capital and related financing activities:		
Capital grants		744,379
Payments for capital acquisitions	24,233	(744,379)
Net cash provided by capital and related financing activities	24,233	

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$(156,090)	$(87,631)	$(1,817,169)
			742,545
			28,907
			(30,228)
	(75,959)		(58,083)
			(4,334)
		1,513	(14,984)
			33,862
			(2,046)
			3,328
		84,233	58,083
	(232,049)	(1,885)	(1,060,119)
	193,300	1,885	1,007,076
			16,532
	193,300	1,885	1,023,608
			744,379
			(720,146)
			24,233

MUSKEGON HEIGHTS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (Continued)
Year Ended March 31, 2004

	C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
Cash flows from investing activities:		
Receipts of interest and dividends	791	
Net cash provided by investing activities	791	
Net increase(decrease) in cash	27,262	
Cash, beginning	153,887	
Cash, ending	$ 181,149	$

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	$ 181,149	$
Restricted cash		
Cash and cash equivalents per balance sheet	$ 181,149	$

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
	381		1,172
	381		1,172
	(38,368)		(11,106)
	75,529		229,416
$	$ 37,161	$	$ 218,310
$	$ 37,161	$	$ 218,310
$	$ 37,161	$	$ 218,310

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	FDA No.	Expenditures
	U.S. Department of HUD		
	Public and Indian Housing Major - Direct Program		
2004	Low Rent Public Housing	14.850	$ 540,562
	Public and Indian Housing Major - Direct Program		
2004	Capital Fund Program	14.872	849,918
	Public and Indian Housing Nonmajor - Direct Program		
2004	Drug Elimination Program	14.854	87,631
	Low Income Public Housing Nonmajor - Direct Program		
2004	Housing Choice Vouchers	14.871	165,806
	Total		$1,643,917

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.

FDA = catalog of Federal Domestic Assistance

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended March 31, 2004

FDS Line Item No.		C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	$ 181,149	$
100	Total cash	181,149	
	Receivables:		
122	A/R-HUD other projects		10,219
126	A/R-tenants-dwelling rents	56,045	
126.1	Allowance for doubtful accounts - dwelling rents	(38,849)	
120	Total receivables, net of allowance for doubtful accounts	17,196	10,219
	Other Current Assets:		
142	Prepaid expenses and other assets	37,262	
143	Inventories	500	
144	Interprogram due from	94,452	
	Total other current assets	132,214	
150	Total current assets	330,559	10,219
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	1,402,031	
162	Buildings	7,396,484	
163	Furn, equip & mach-dwellings	143,014	
164	Furn, equip & mach-admin.	200,039	75,830
165	Building improvements	7,783,618	
166	Accumulated depreciation	(11,041,868)	(7,583)
167	Construction in progress		1,277,447
160	Total fixed assets, net of accumulated depreciation	5,883,318	1,345,694
180	Total noncurrent assets	5,883,318	1,345,694
190	Total Assets	$ 6,213,877	$1,355,913

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$ 37,161	$	$ 218,310
	37,161		218,310
		85,746	95,965
			56,045
			(38,849)
		85,746	113,161
			37,262
			500
	135,218		229,670
	135,218		267,432
	172,379	85,746	598,903
			1,402,031
			7,396,484
			143,014
			275,869
			7,783,618
			(11,049,451)
			1,277,447
			7,229,012
			7,229,012
$	$ 172,379	$ 85,746	$ 7,827,915

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (Continued)
Year Ended March 31, 2004

FDS Line Item No.		C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
	LIABILITIES AND EQUITY		
	Liabilities:		
	aren't Liabilities:		
312	Accounts payable<=90 days	$ 55,078	$
322	Accrued compensated absences	47,874	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	147,834	
341	Tenant security deposits	41,951	
345	Other current liabilities	3,328	
347	Interprogram due to	135,218	10,219
310	Total current liabilities	431,283	10,219
300	Total liabilities	431,283	10,219
	Equity:		
	Contributed Capital:		
502	Project notes (HUD)	3,208,659	
503	Long-term debt-HUD guaranteed	596,687	
504	Net HUD PHA contributions	1,344,487	
508	Total contributed capital	5,149,833	
512	Undesignated retained earnings	632,761	1,345,694
513	Total Equity	5,782,594	1,345,694
600	Total Liabilities and Equity	$ 6,213,877	$1,355,913

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$	$ 1,513	$ 56,591
			47,874
	115,479		115,479
			147,834
			41,951
			3,328
		84,233	229,670
	115,479	85,746	642,727
	115,479	85,746	642,727
			3,208,659
			596,687
			1,344,487
			5,149,833
	56,900		2,035,355
	56,900		7,185,188
$	$ 172,379	$ 85,746	$ 7,827,915

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (Continued)
Year Ended March 31, 2004

FDS Line Item No.		C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
	Revenue:		
703	Net tenant rental revenue	$ 711,027	$
704	Tenant revenue-other	10	
705	Total tenant revenue	711,037	
706	HUD PHA grants	540,562	105,539
706.1	Capital grants		744,379
711	Investment income-unrestricted	791	
715	Other revenue	16,532	
700	Total revenue	1,268,922	849,918
	Expenses:		
	Administrative:		
911	Administrative salaries	188,091	
912	Auditing fees	1,580	
915	Employee benefit contributions-adm.	162,166	
916	Other operating-administrative	107,969	105,539
	Tenant Services:		
921	Tenant services-salaries	22,414	
923	Employee benefit contributions	6,902	
924	Tenant services-other	2,958	
	Utilities:		
931	Water	98,467	
932	Electricity	105,835	
933	Gas	168,113	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	209,046	
942	Ordinary maint & oper-mat'ls & other	118,347	
943	Ordinary maint & oper-contract costs	114,736	
945	Employee benefit contributions-ordinary maintenance	3,835	
952	Protective services-other contract costs		
	General expenses:		
961	Insurance premiums	75,278	
963	Payments in lieu of taxes	33,862	
964	Bad debt - tenant rents	25,738	
969	Total operating expenses	1,445,337	105,539
970	Excess operating revenue over operating expenses	(176,415)	744,379

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
$	$	$	$ 711,027
			10
			711,037
	165,806	87,631	899,538
			744,379
	381		1,172
			16,532
	166,187	87,631	2,372,658
	6,451		194,542
	1,420		3,000
	3,011		165,177
	1,992		215,500
			22,414
			6,902
			2,958
			98,467
			105,835
			168,113
			209,046
			118,347
			114,736
			3,835
		87,631	87,631
			75,278
			33,862
			25,738
	12,874	87,631	1,651,381
	153,313		721,277

MUSKEGON HEIGHTS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (Continued)
Year Ended March 31, 2004

FDS Line Item No.		C-3018 Low Rent Program 14.850	Capital Fund Program 14.872
	Expenses Continued:		
	Other expenses:		
972	Casualty losses-noncapitalized	(8,936)	
973	Housing assistance payments		
974	Depreciation expense	734,962	7,583
	Total other expenses	726,026	7,583
900	Total expenses	2,171,363	113,122
1000	Excess (deficiency) of operating revenue over(under) expenses	(902,441)	736,796
1103	Beginning Equity	4,502,111	608,898
1104	Prior period adjustments, equity transfers and correction of errors	2,182,924	
	Ending Equity	$ 5,782,594	$1,345,694

CGP Program 14.859	Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
			(8,936)
	143,216		143,216
			742,545
	143,216		876,825
	156,090	87,631	2,528,206
	10,097		(155,548)
2,161,752	46,803		7,319,564
(2,161,752)			21,172
$	$ 56,900	$	$ 7,185,188

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

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

We have audited the financial statements of the Muskegon Heights Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2004, and have issued our report thereon dated November 18, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

***Internal Control Over Financial Reporting* - Continued**

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 18, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, 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. Lankitts, CPA, PC

November 18, 2004

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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Report on Compliance with Requirements Applicable To Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Housing Commissioners
Muskegon Heights Housing Commission
Muskegon Heights, Michigan

Compliance

We have audited the Compliance of the Muskegon Heights 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 March 31, 2004. 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. Our responsibility is to express an opinion on the 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 the 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 of the Housing Commission's compliance with those requirements.

Compliance (continued)

In our opinion, 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 March 31, 2004.

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 our audit, we 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 18, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, 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 & Faulkner, CPA, PC

November 18, 2004

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
March 31, 2004

==========

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified

2. Internal control over financial reporting:
   a. Material weakness identified: No
   b. Reportable condition identified that is not a material weakness: No

3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
   a. Material weakness identified: No
   b. Reportable condition that is not a material weakness: Yes

2. Type of auditor's report issued on compliance for major programs: Unqualified

3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: No

4. Identification of major programs:

FDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	$ 540,562	Yes	C	N/A	02-2
14.872	Capital Fund Program	849,918	Yes	O	N/A	N/A
14.854	Drug Elimination Program	87,631	No	O	N/A	N/A
14.871	Housing Choice Vouchers	165,806	No	O	N/A	N/A
	Total	$1,643,917				

5. Dollar threshold used to distinguish between type A and type B programs: $300,000

6. Auditee qualified as low-risk auditee? Yes

MUSKEGON HEIGHTS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
March 31, 2004

==========

B.	**Financial Statement Findings**	None
C.	**Federal Award Findings and Questioned Costs**	See page 37

MUSKEGON HEIGHTS HOUSING Commission
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2004

==========

Section III - Federal Award Findings and Questioned Costs

CASH MANAGEMENT

Finding: 02-2 Unsecured Bank Deposits

Condition: $91,170 of Housing Commission deposits were unsecured at March 31, 2002.

Recommendation: We recommend that deposits be limited to $200,000 per financial institution or collateralization agreements be obtained to secure deposits in excess of $200,000.

Current Status: The Housing Commission has $36,812 in uninsured deposits as of March 31, 2004, so the finding still needs to be resolved.

MUSKEGON HEIGHTS HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS ON COMMUNICATIONS WITH THE AUDIT COMMITTEE/BOARD OF COMMISSIONERS AND MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2004

MUSKEGON HEIGHTS HOUSING COMMISSION

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MARCH 31, 2004

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INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE AUDIT COMMITTEE/ BOARD OF COMMISSIONERS

To the Board of Commissioners
Muskegon Heights Housing Commission

We have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2004, and have issued our report, thereon, dated November 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was not any audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 6).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Barry E. Tarbitt, CPA, PC

November 18, 2004

Barry E. Gaudette, CPA, P.C.
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INDEPENDENT AUDITORS' REPORT ON MANAGEMENT ADVISORY COMMENTS

To the Board of Commissioners
Muskegon Heights Housing Commission

We have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2004, and have issued our report, thereon, dated November 18, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

November 18, 2004

Physical Inventory

The Housing Commission has not taken a physical inventory in recent years.

We recommend that the Housing Commission take a physical inventory of assets at least once a year.

Invoices

During our test of transactions for disbursements, there were two(2) transactions paid from statements without an invoice.

We recommend that the Housing Commission before making a payment from a statement without an invoice available, make an attempt to obtain an invoice from the vendor.

Account Classifications

From a discussion with the fee accountant, we learned that sometimes a disbursement classified as maintenance should have been classified as a capital outlay.

We recommend that the classification of these type of disbursements be reviewed carefully for the proper classification.

Investment Policy

The Housing Commission may have adopted an investment policy in prior years, but one could not be located.

We recommend that an investment policy be adopted by the Board as required by State Law.

Certificate of Deposits and Savings Accounts

The Housing Commission does not have a policy or resolution requiring two signatures to withdraw a certificate of deposit or savings account.

We recommend the Board to pass a resolution requiring at least two signatures to withdraw or transfer a certificate of deposit or savings account. A copy of this resolution should be given to the bank.

MUSKEGON HEIGHTS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
March 31, 2004
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Account #	Account Name	Debit	Credit
LOW RENT PROGRAM			

There were no **audit** adjusting journal entries.