

BENTON HARBOR HOUSING COMMISSION  
BENTON HARBOR, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

Reset Form

Email

# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended

Unit Name	Benton Harbor Housing Commi	County	BERRIEN	Type	OTHER	MuniCode	
Opinion Date	May 23, 2008	Audit Submitted	June 19, 2008	Fiscal Year	September 30, 2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
	<input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="2,253,039"/>
General Fund Expenditure:	<input type="text" value="3,334,232"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="14,405,031"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Barry	Last Name	Gaudette	Ten Digit License Number	1101011050					
CPA Street Address	3994 Sherwood Forest Drive		City	Traverse City	State	MI	Zip Code	49686	Telephone	946-8930
CPA Firm Name	Barry E. Gaudette, CPA, PC		Unit's Street Address	731 S. Garfield Ave.		City	Traverse City		Zip Code	49686

BENTON HARBOR HOUSING COMMISSION  
**TABLE OF CONTENTS**  
September 30, 2007

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis (unaudited)	3-11
Basic Financial Statements:	
Statement of Net Assets	12-13
Statement of Revenue, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	15-16
Notes to Basic Financial Statements	17-28
<b>SUPPLEMENTAL INFORMATION</b>	
Combining Statement of Net Assets By Program	29-30
Combining Statement of Revenues, Expenses, and and Changes in Net Assets By Program	31
Combining Statement of Cash Flows By Program	32-33
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	34
Financial Data Schedule	35-38
<b>REPORTS ON INTERNAL CONTROL AND COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	41-43
Status of Prior Audit Findings	44
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor Results	45
Section II - Financial Statement Findings	46
Section III - Federal Awards Findings	46-60
ACTION PLAN	61-62
ADJUSTING JOURNAL ENTRIES	63

INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Benton Harbor Housing Commission  
Benton Harbor, Michigan

I have audited the accompanying financial statements of the business-type activities of Benton Harbor Housing Commission, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Benton Harbor Housing Commission, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Benton Harbor Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated May 23, 2008, on my consideration of Benton Harbor Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 11, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Benton Harbor Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements 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 of Benton Harbor Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barry E. Flanahan, M.A., P.C.*

May 23, 2008

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Unaudited)**

As management of the Benton Harbor Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Benton Harbor Housing Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis letter of the Benton Harbor Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

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

**FINANCIAL HIGHLIGHTS**

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of September 30, 2007 were \$14,405,031. The net assets increased by \$4,306,995, an increase of 42.7% over the prior year.

Revenues and contributions for the Commission were \$7,642,943 for the fiscal year ended September 30, 2007. This was an increase of \$3,616,752 or 89.8% over the prior year.

Expenses for the Commission were \$3,334,232 for the fiscal year ended September 30, 2007. This was an increase of \$293,334 or 9.6% over the prior year.

HUD operating grants were \$2,060,205 for the fiscal year ended September 30, 2007. This was an increase of \$232,344 or 12.7% over the prior year. Capital contributions were \$5,389,904 for the fiscal year ended September 30, 2007. This was an increase of \$3,614,492 or 203.6% over the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental*

Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

*Information.* The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

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

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

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

Notes to the Financial Statements

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

Supplemental Information

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

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)**

**FUND STATEMENTS**

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

**Benton Harbor Housing Commission Programs:**

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

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital needs. The Housing Commission also has the ability to use up 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.

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

Revitalization of Severely Distressed Public Housing Program: The Housing Commission began administrating a HOPE VI program on April 30, 2004.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$14,405,031 at the close of the fiscal year ended September 30, 2007 an increase from \$10,098,036 in 2006. The increase in net assets of \$4,306,995 was due to the change in net assets for the fiscal year.

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)**

The unrestricted net assets were \$267,747 as of September 30, 2007. This amount may be used to meet the Commission's ongoing obligations. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets, except of the Low Rent program where there was a \$43,123 deficit. The same situation held true for the prior fiscal year, except the deficit was \$181,727 in the Low Rent program.

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

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Current and other assets	\$ 513,162	\$ 548,245	\$( 35,083)	( 6.4)%
Capital assets	<u>14,137,384</u>	<u>9,918,300</u>	<u>4,219,084</u>	42.5%
Total Assets	<u>14,650,546</u>	<u>10,466,545</u>	<u>4,184,001</u>	40.0%
Current liabilities	241,019	336,218	( 95,199)	(28.3)%
Noncurrent liabilities	<u>4,496</u>	<u>32,291</u>	<u>( 27,795)</u>	(86.1)%
Total Liabilities	<u>245,515</u>	<u>368,509</u>	<u>( 122,994)</u>	(33.4)%
Net Assets:				
Invested in capital assets	14,137,384	9,918,300	4,219,084	42.5%
Unrestricted	<u>267,647</u>	<u>179,736</u>	<u>87,911</u>	48.9%
Total Net Assets	<u>\$14,405,031</u>	<u>\$10,098,036</u>	<u>\$4,306,995</u>	42.7%

The current assets decrease of \$35,083 was due, in part, to the HOPE VI programs amount due from HUD being \$30,412 less than the prior year. Current liabilities decreased by \$95,199, in large part, due to the reduction of accounts payable by \$45,908 and the payoff of accrued compensated absences of \$44,941.

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

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

Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)

**FINANCIAL ANALYSIS (CONTINUED)**

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

As can be seen in the following table total revenues and contributions increased by \$3,616,752, in large part, due to an increase in the HOPE VI grant of \$3,571,663, and tenant rents increasing by \$32,575 over the prior fiscal year.

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
<b>Revenues and contributions</b>				
Operating, nonoperating, capital contributions:				
Tenant Revenue	\$ 410,690	\$ 378,115	\$ 32,575	8.6%
Nondwelling rent	<u>17,617</u>	<u>25,104</u>	( 7,487)	(29.8)%
Total PHA generated				
Revenue	428,307	403,219	25,088	6.2%
HUD operating grants	2,060,205	1,827,861	232,344	12.7%
Capital contributions	5,389,904	1,775,412	3,614,492	203.6%
Loss on disposal of fixed assets	( 261,734)		( 261,734)	(100)%
Other income	14,329	8,273	6,056	73.2%
Interest income	<u>11,932</u>	<u>11,426</u>	506	4.4%
<b>Total Revenues and Contributions</b>	<u>7,642,943</u>	<u>4,026,191</u>	<u>3,616,752</u>	89.8%
<b>Expenses</b>				
Personnel services	741,214	750,561	( 9,347)	( 1.2)%
Utilities	179,906	287,787	( 107,881)	(37.5)%
Operations and maint.	171,818	293,319	( 121,501)	(41.4)%
Protective services		49,427	( 49,427)	(100)%
Insurance	145,068	110,217	34,851	31.6%
Payments in lieu of taxes	23,078	9,898	13,180	133.2%
Other supplies and expenses	364,823	187,584	177,239	94.5%
Housing Assistance				
Payments	850,043	643,870	206,173	32.0%
Depreciation	<u>858,282</u>	<u>708,235</u>	<u>150,047</u>	21.2%
<b>Total Expenses</b>	<u>3,334,232</u>	<u>3,040,898</u>	<u>293,334</u>	9.6%
Change in net assets	4,308,711	985,293	3,323,418	
Prior period adjustments	54,469	( 9,650)	64,119	
Beginning net assets	<u>10,041,851</u>	<u>9,122,393</u>	<u>919,458</u>	
Ending net assets	<u>\$14,405,031</u>	<u>\$10,098,036</u>	<u>\$4,306,995</u>	

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)**

**FINANCIAL ANALYSIS (CONTINUED)**

*Revenues:*

Benton Harbor Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. Revenue received from HUD for fiscal year ended September 30, 2007 for Public Housing, capital contributions, Housing Choice Vouchers, and HOPE VI increased from fiscal year ending September 30, 2006 to September 30, 2007 by \$3,846,836. For fiscal year ending September 30, 2007, revenue generated by the Commission accounted for \$454,568 (or 5.9% of total revenue), while HUD contributions accounted for \$7,450,109 (or 97.5% of total revenue). The loss on disposal of assets makes up the difference, or (3.4%). The loss of \$261,734 consists of writing off the demolition of a building built in 1956 and a survey and site plans for the site.

*Expenses:*

Total Expenses for the fiscal ending September 30, 2006 were \$3,040,898 while for the fiscal year ending September 30, 2007 they were \$3,334,232. This represents an 9.6% increase in our operating costs. The expenses increased by \$293,334, in large part, because the Housing Choice Voucher HAP (housing assistance payments) payments increased by \$206,173 from the prior year due to a higher leaseup average this fiscal year. Personnel costs decreased by a small amount of \$9,347, in part, because health insurance now only covers employees and not other members of the family as it did in the past. Utilities decreased by \$121,501, in part, because of gas costs being reduced by \$93,366 and water costs being reduced by \$11,832. Some of this reduction is due to more than 12 payments being included in the prior year expenses. Operations and maintenance decreased by \$121,501 from the prior year, due in large part, to contract costs being \$79,203 less and maintenance supplies purchased were reduced by \$21,727. Protective services were eliminated during the fiscal year ended September 30, 2007, therefore, saving \$49,427. Insurance costs increased by \$34,851 due to a payment for the prior year included in this years expenses. The PILOT payment increased this fiscal year by \$13,180 due to the increase in rents and decrease in utilities. Other supplies and expenses increased by \$177,239, due to travel, accounting fees, sundry, postage, office supplies, dues, telephone, and bad debt writeoff increases over the prior year. Depreciation expense is \$150,047 more than the prior year, due to the increases in capital assets due to site improvements and the HOPE VI program.

Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)

FINANCIAL ANALYSIS (CONTINUED)

The following represents changes in Federal Assistance received:

	<u>09/30/07</u>	<u>09/30/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing				
Operating Subsidy	\$ 861,237	\$ 879,092	\$( 17,855)	( 2.0)%
Capital Fund Program				
Grants	918,110	632,507	285,603	45.2%
Housing Choice				
Voucher Program	910,490	846,880	63,610	7.5%
Revitalization of				
Severely Distressed				
(HOPE VI program)	<u>4,760,272</u>	<u>1,244,794</u>	<u>3,515,478</u>	<u>282.4%</u>
Total	<u>\$7,450,109</u>	<u>\$3,603,273</u>	<u>\$3,846,836</u>	<u>106.8%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Housing Choice Vouchers increased due to the higher leaseup rate of vouchers. The increase in the Capital Fund Program was due to the fact that work projects during the fiscal year ending September 30, 2007 progressed along more rapidly than the prior year, thus utilizing more of our Capital Fund Program funding in the fiscal year ending September 30, 2007 than in the fiscal year ending September 30, 2006. The HOPE VI Program increase represents the increase in activity of the construction of new units.

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for the fiscal year ending September 30, 2007 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)**

**OPERATIONAL HIGHLIGHTS**

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

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Low Rent Public Housing	270	270
Housing Choice Voucher	128	128

During the fiscal year ending September 30, 2007, Benton Harbor Housing Commission maintained a lease-up rate of 75.5% in its Public Housing Program and a lease-up rate of 84.4% in its Housing Voucher Program.

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

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

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

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

**CAPITAL ASSETS**

During the fiscal year ending September 30, 2007, our Capital Fund Program work projects included:

The Housing Commission expended capital fund monies for flooring, painting, kitchen upgrades, fascia replacement, boiler, hot water tank, computer support services, interior improvements, phone system, and a test generator.

Capital projects planned for the next fiscal year include continuing site improvements of the facilities.

**Benton Harbor Housing Commission  
Management's Discussion and Analysis (MD&A)  
September 30, 2007  
(Continued)**

**CAPITAL ASSETS (CONTINUED)**

The Benton Harbor Housing Commission's investment in capital assets, as of September 30, 2007 amounts to \$14,137,384 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

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

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 121,807	\$ 121,807	\$
Buildings	15,387,106	16,445,856	(1,058,750)
Furniture, equipment and machinery - dwellings	152,506	84,080	68,426
Furniture, equipment and machinery - administration	387,271	455,098	( 67,827)
Building improvements		244,708	( 244,708)
Construction in progress	<u>6,565,597</u>	<u>2,145,300</u>	<u>4,420,297</u>
	22,614,287	19,496,849	3,117,438
Accumulated depreciation	<u>( 8,476,903)</u>	<u>( 9,578,549)</u>	<u>1,101,646</u>
Total	<u>\$14,137,384</u>	<u>\$ 9,918,300</u>	<u>\$4,219,084</u>

Capital assets increased by \$4,219,084, because capital outlays of \$5,395,286, depreciation of \$858,282, and a loss on the demolition of buildings built in 1956 and a survey and site plan.

**REQUEST FOR INFORMATION**

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

Barbara Hollowell, Executive Director  
Benton Harbor Housing Commission  
721 Nate Wells Drive, Benton Harbor, MI 49022

FINANCIAL STATEMENTS

BENTON HARBOR HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
September 30, 2007

=====

**ASSETS**

Current Assets:		
Cash and cash equivalents	\$	377,801
Receivables, net		107,631
Prepaid expenses		27,105
Inventories		<u>625</u>
Total Current Assets		<u>513,162</u>
Capital Assets:		
Land		121,807
Buildings		15,387,106
Equipment		539,777
Construction in progress		<u>6,565,597</u>
		22,614,287
Less: accumulated depreciation		<u>( 8,476,903)</u>
Net Capital Assets		<u>14,137,384</u>
Total Assets	\$	<u>14,650,546</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
September 30, 2007  
=====

LIABILITIES and NET ASSETS

Current Liabilities:		
Accounts payable	\$	32,248
Accrued expenses		17,673
Accounts payable-other governments		97,098
Tenant security deposits		46,335
Deferred revenues		<u>47,665</u>
Total Current Liabilities		241,019
Noncurrent liabilities:		
Accrued compensated absences		<u>4,496</u>
Total Liabilities		<u>245,515</u>
Net Assets:		
Invested in capital assets		14,137,384
Unrestricted net assets		<u>267,647</u>
Total Net Assets		<u>14,405,031</u>
Total Liabilities and Net Assets	\$	<u>14,650,546</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION  
**STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS**

Year Ended September 30, 2007

<b>OPERATING REVENUES:</b>	
Dwelling rent	\$ 410,690
Nondwelling rent	17,617
Operating grants	<u>2,060,205</u>
Total operating revenues	<u>2,488,512</u>
<b>OPERATING EXPENSES:</b>	
Administration	782,377
Tenant services	312
Utilities	179,906
Ordinary maintenance and operation	464,194
General expenses	199,118
Housing assistance payments	850,043
Depreciation	<u>858,282</u>
Total operating expenses	<u>3,334,232</u>
Operating income(loss)	<u>( 845,720)</u>
<b>NONOPERATING REVENUES (EXPENSES) :</b>	
Loss on sale of fixed assets	( 261,734)
Investment interest income	11,932
Other income	<u>14,329</u>
Total nonoperating revenues(expenses)	<u>( 235,473)</u>
Income(loss) before contributions	(1,081,193)
<b>CAPITAL CONTRIBUTIONS</b>	<u>5,389,904</u>
Change in net assets	4,308,711
Prior period adjustments	54,469
Net assets, beginning	<u>10,041,851</u>
Net assets, ending	<u>\$14,405,031</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS**  
Year Ended September 30, 2007  
=====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 445,466
Cash received from operating grants	2,122,646
Cash payments to other suppliers of goods and services	(1,850,178)
Cash payments to employees for services	( 788,554)
Cash payments for in lieu of taxes	<u>( 20,859)</u>
Net cash (used) by operating activities	<u>( 91,479)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES:**

FSS deposits disbursed	( 10,902)
Tenant security deposits	1,656
Other revenue	<u>14,763</u>
Net cash provided by noncapital financing activities	<u>5,517</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Capital grants	5,420,316
Payments for capital acquisitions	<u>(5,395,286)</u>
Net cash provided by capital and related financing activities	<u>25,030</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received from old homeownership from program with city	77,149
Receipts of interest and dividends	<u>11,932</u>
Net cash provided by investing activities	<u>89,081</u>

Net increase(decrease) in cash	28,149
Cash and cash equivalents, beginning	<u>349,652</u>
Cash and cash equivalents, ending	<u>\$ 377,801</u>

BENTON HARBOR HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended September 30, 2007  
=====

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

Operating income(loss)	\$( 845,720)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	858,282
Prior period adjustments	( 22,680)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-HUD	43,150
Accounts receivable-tenants	22,984
Prepaid expenses	( 5,875)
Inventories	576
Increase (decrease) in liabilities:	
Bank overdraft	( 72,639)
Accounts payable	( 49,050)
Accrued wage/payroll taxes payable	7,921
Accrued compensated absences	( 44,113)
Accounts payable-PILOT	2,219
Deferred revenues	<u>13,466</u>
Net cash (used) by operating activities	<u><u>\$( 91,479)</u></u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2007  
=====

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

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

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

**1(a) Financial Reporting Entity**

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

Primary Government:	Housing Commission
---------------------	--------------------

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

**1(b) Basis of Presentation**

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

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

<b>Program</b>	<b>Brief Description</b>
Low Rent Program	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.
Housing Choice Vouchers Program	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Revitalization of Severely Distressed Public Housing program (HOPE VI)	The Housing Commission, since July 8, 2004, began administrating a HOPE VI program.

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

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

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

### **Measurement Focus**

In the financial statements, the "economic resources" measurement focus is used as follows:

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

### **Basis of Accounting**

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

## **1(d) Assets, 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 disclosures are presented in Note 2(b) and 3(a).

### **Interprogram Receivables and Payables**

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

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

### **Receivables**

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

### **Inventories**

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

### **Insurance**

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

### **Budgets and Budgetary Accounting**

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

### **Estimates and Assumptions**

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

### **Capital Assets**

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

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

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

**Capital Assets (Continued)**

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

Buildings	40 years
Building improvements	10 years
Equipment and furnishings	3 - 10 years

**Compensated Absences**

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

**Equity Classifications**

Equity is classified as net assets and displayed in 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".

**1(e) 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.

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

**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.

**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**

The Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

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

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

**2(a) Program Accounting Requirements**

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

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

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

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

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

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

## 2(c) Revenue Restrictions

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

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

For the year ended September 30, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

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

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

### 3(a) Cash and Investments

#### Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at September 30, 2007. The categories of credit risk are defined as follows:

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

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

**Deposits (Continued)**

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

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

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	<u>\$449,779</u>	<u>\$204,347</u>	<u>\$</u>	<u>\$245,432</u>	<u>\$ 377,576</u>

**Investments**

The Housing Commission does not have any investments.

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

Cash on hand	\$ 225
Carrying amount of deposits	377,576
Total	<u>\$ 377,801</u>
Cash and investments:	
Enterprise activities	\$ 450,004
Enterprise activities - checks written in excess of deposits	( 72,203)
Total	<u>\$ 377,801</u>

**3(b) Receivables**

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

PHA projects	\$ 5,120
HUD other projects	82,430
Tenants-dwelling rents	20,081
	<u>\$ 107,631</u>

### 3(c) Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Balance 09/30/06</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 09/30/07</u>
<b>Low Rent Program</b>				
Land	\$ 121,807	\$	\$	\$ 121,807
Buildings	16,445,856		2,149,891	14,295,965
Furniture, equip. & machinery - dwellings	60,767			60,767
Furniture, equip. & machinery - administration	<u>419,652</u>		<u>71,773</u>	<u>347,879</u>
	17,048,082	<u>\$</u>	<u>\$ 2,221,664</u>	14,826,418
Less accumulated depreciation	<u>(9,548,724)</u>	<u>\$ (789,424)</u>	<u>\$ 1,959,929</u>	<u>(8,378,219)</u>
Total	<u>\$7,499,358</u>			<u>\$6,448,199</u>
<b>Capital Fund Program</b>				
Buildings	\$	\$1,091,141	\$	\$1,091,141
Furniture, equip. & machinery - dwellings	23,313	68,426		91,739
Furniture, equip. & machinery - administration	10,089		1,436	8,653
Building improvements	244,708		244,708	
Construction in progress	<u>506,695</u>		<u>283,790</u>	<u>222,905</u>
	784,805	<u>\$1,159,567</u>	<u>\$ 529,934</u>	1,414,438
Less accumulated depreciation	<u>( 29,483)</u>	<u>\$ ( 66,004)</u>	<u>\$</u>	<u>( 95,487)</u>
Total	<u>\$ 755,322</u>			<u>\$1,318,951</u>
<b>Housing Choice Voucher Program</b>				
Furniture, equip. & machinery - administration	\$	<u>\$ 5,382</u>	<u>\$</u>	\$ 5,382
Less accumulated depreciation		<u>\$ ( 320)</u>	<u>\$</u>	<u>( 320)</u>
Total	<u>\$</u>			<u>\$ 5,062</u>

3(c) Capital Assets (Continued)

	<u>Balance</u> <u>09/30/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/07</u>
Revitalization of Severely Distressed Public Housing Program (HOPE VI)				
Furniture, equip. & machinery - administration	\$ 25,357	\$	\$	\$ 25,357
Construction in progress	<u>1,582,420</u>	<u>4,760,272</u>	<u>                    </u>	<u>6,342,692</u>
	1,607,777	<u>\$ 4,760,272</u>	<u>\$</u>	6,368,049
Less accumulated depreciation	<u>(          342)</u>	<u>\$ (          2,535)</u>	<u>\$</u>	<u>(          2,877)</u>
Total	<u>\$1,663,620</u>			<u>\$6,365,172</u>
Combined Totals				<u>\$14,137,384</u>

3(d) Accrued Expenses

Accrued expense detail at September 30, 2007, is as follows:

Accrued wage/payroll taxes payable	\$ 11,280
Accrued compensated absences-current portion	<u>6,393</u>
	<u>\$ 17,673</u>

3(e) Interprogram Transactions and Balances

*Operating Transfers*

The capital fund program transferred \$113,987 to the low rent program during the fiscal year ended September 30, 2007.

*Interprogram Receivable/Payable*

Low Rent Program	\$ 85,855
Revitalization of Severely Distressed Public Housing	<u>( 85,855)</u>
	<u>\$</u>

**NOTE 4: Other Notes**

**4(a) Employee Retirement Plan**

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

**4(b) Risk Management**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

<b>Type of Loss</b>	<b>Method Managed</b>
b. Injuries to employees (workers' compensation)	Insured by Amerisure Insurance.
c. Physical property loss and natural disasters	Insurance coverage under the Housing Insurance Services, Inc.
d. Liability	Insurance coverage with the Housing Authority Risk, Retention Group.
e. Health	Insurance coverage with Blue Cross Blue Shield.
f. Disability and Life	Insurance coverage Standard Insurance Company.
g. Dental	Insurance coverage Delta Dental Plan of Michigan.
h. Boiler & machinery	Insurance coverage with Housing Insurance Services, Inc.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

#### 4(c) Commitments and Contingencies

##### Commitments - Construction

At September 30, 2007, the Housing Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
2005 CFP	\$ 569,933	\$ 569,933
2006 CFP	577,999	293,144
2007 CFP	570,696	-

##### Contingencies

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

#### 4(d) Prior Period Adjustments, Equity Transfers and Correction of Errors

##### Low Rent Program

Reclassify HOPE VI and Voucher payroll from prior years	\$( 16,238)
IRS-prior year taxes and penalties	( 12,788)
Write off old payables per pha	12,774
Void prior year checks	24,127
Interest received off old homeownership from program w/city	<u>77,149</u>
	<u>\$ 85,024</u>

##### Housing Choice Voucher Program

Void prior year HAP checks	\$ 2,274
Record Port receiving as HAP expense	( 4,914)
Reclassify prior year salaries as Admin Exp from PH to Voucher	<u>( 27,915)</u>
	<u>\$ ( 30,555)</u>

SUPPLEMENTARY INFORMATION

BENTON HARBOR HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
**BY PROGRAM**  
September 30, 2007  
=====

	Low Rent Program 14.850a	Capital Fund Program 14.872
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,749	\$ 19,291
Receivables:		
Accounts receivable-HUD		
Tenants-dwelling rents	20,081	
Prepaid expenses	27,105	
Inventories	625	
Due from other programs	85,855	
Total current assets	181,415	19,291
Capital assets:		
Land	121,807	
Buildings	14,295,965	1,091,141
Equipment	408,646	100,392
Construction in progress		222,905
	14,826,418	1,414,438
Less accumulated depreciation	( 8,378,219)	( 95,487)
Net capital assets	6,448,199	1,318,951
Total Assets	\$ 6,629,614	\$1,338,242

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 307,336	\$ 3,425	\$ 377,801
5,120	82,430	87,550
		20,081
		27,105
		625
		<u>85,855</u>
<u>312,456</u>	<u>85,855</u>	<u>599,017</u>
		121,807
		15,387,106
5,382	25,357	539,777
	<u>6,342,692</u>	<u>6,565,597</u>
5,382	6,368,049	22,614,287
( 320)	( 2,877)	( 8,476,903)
<u>5,062</u>	<u>6,365,172</u>	<u>14,137,384</u>
<u>\$ 317,518</u>	<u>\$ 6,451,027</u>	<u>\$ 14,736,401</u>

BENTON HARBOR HOUSING COMMISSION  
 COMBINING STATEMENT OF NET ASSETS  
 BY PROGRAM (CONTINUED)  
 September 30, 2007

=====

	Low Rent Program	Capital Fund Program
	<u>14.850a</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:		
Accounts payable	\$ 31,390	\$
Accrued expenses	17,017	
Accounts payable-other governments	97,098	
Tenant security deposits	46,335	
Deferred revenues	28,374	19,291
Due to other programs	<u>          </u>	<u>          </u>
Total current liabilities	220,214	19,291
Noncurrent liabilities:		
Accrued compensated absences	<u>4,324</u>	<u>          </u>
Total liabilities	<u>224,538</u>	<u>19,291</u>
Net Assets:		
Invested in capital assets	6,448,199	1,318,951
Unrestricted net assets	<u>( 43,123)</u>	<u>          </u>
Total net assets	<u>6,405,076</u>	<u>1,318,951</u>
Total Liabilities and Net Assets	<u>\$6,629,614</u>	<u>\$1,338,242</u>

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 858	\$	\$ 32,248
656		17,673
		97,098
		46,335
		47,665
	<u>85,855</u>	<u>85,855</u>
1,514	85,855	326,874
172		<u>4,496</u>
<u>1,686</u>	<u>85,855</u>	<u>331,370</u>
5,062	6,365,172	14,137,384
<u>310,770</u>		<u>267,647</u>
<u>315,832</u>	<u>6,365,172</u>	<u>14,405,031</u>
<u>\$ 317,518</u>	<u>\$ 6,451,027</u>	<u>\$ 14,736,401</u>

BENTON HARBOR HOUSING COMMISSION  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS BY PROGRAM  
 Year Ended September 30, 2007

=====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 410,690	\$
Nondwelling rent	17,617	
Operating grants	<u>861,237</u>	<u>288,478</u>
Total operating revenues	<u>1,289,544</u>	<u>288,478</u>
<b>OPERATING EXPENSES:</b>		
Administration	545,410	153,621
Tenant services	312	
Utilities	179,906	
Ordinary maintenance and operation	443,324	20,870
General expenses	198,389	
Housing assistance payments		
Depreciation	<u>789,424</u>	<u>66,003</u>
Total operating expenses	<u>2,156,765</u>	<u>240,494</u>
Operating income(loss)	<u>( 867,221)</u>	<u>47,984</u>
<b>NONOPERATING REVENUES (EXPENSES) :</b>		
Loss on sale of fixed assets	( 261,734)	
Investment interest income	3,060	
Other income	<u>14,329</u>	
Total nonoperating revenues (expenses)	<u>( 244,345)</u>	
Income(loss) before contributions and transfers	(1,111,566)	47,984
<b>CAPITAL CONTRIBUTIONS</b>		629,632
<b>TRANSFERS IN (OUT)</b>	<u>113,987</u>	<u>( 113,987)</u>
Change in net assets	( 997,579)	563,629
Prior period adjustments, equity transfers and correction of errors	85,024	
Net assets, beginning	<u>7,317,631</u>	<u>755,322</u>
Net assets, ending	<u>\$6,405,076</u>	<u>\$1,318,951</u>

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$ 410,690
		17,617
<u>910,490</u>	<u>                    </u>	<u>2,060,205</u>
<u>910,490</u>	<u>                    </u>	<u>2,488,512</u>
83,346		782,377
		312
		179,906
		464,194
729		199,118
850,043		850,043
<u>320</u>	<u>2,535</u>	<u>858,282</u>
<u>934,438</u>	<u>2,535</u>	<u>3,334,232</u>
( 23,948)	( 2,535)	( 845,720)
		( 261,734)
8,872		11,932
<u>                    </u>	<u>                    </u>	<u>14,329</u>
<u>8,872</u>	<u>                    </u>	<u>( 235,473)</u>
( 15,076)	( 2,535)	( 1,081,193)
	4,760,272	5,389,904
<u>                    </u>	<u>                    </u>	<u>                    </u>
( 15,076)	4,757,737	4,308,711
( 30,555)		54,469
<u>361,463</u>	<u>1,607,435</u>	<u>10,041,851</u>
<u>\$ 315,832</u>	<u>\$ 6,365,172</u>	<u>\$ 14,405,031</u>

BENTON HARBOR HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
**BY PROGRAM**

Year Ended September 30, 2007

=====

	Low Rent Program 14.850a	Capital Fund Program 14.872
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 445,466	\$ 349,324
Cash received from operating grants	861,237	349,324
Cash payments to other suppliers of goods and services	( 808,153)	( 117,329)
Cash payments to employees for services	( 689,101)	( 57,162)
Cash payments for in lieu of taxes	( 20,859)	_____
Net cash provided (used) by operating activities	( 211,410)	174,833
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
FSS deposits disbursed	( 10,902)	
Operating transfers in(out)	113,987	( 113,987)
Interprogram due from(to)	12,760	( 41,555)
Tenant security deposits	1,656	
Other revenue	14,763	_____
Net cash provided (used) by noncapital financing activities	132,264	( 155,542)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants		629,632
Payments for capital acquisitions		( 629,632)
Net cash (used) by capital and related financing activities	_____	_____
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received from old homeownership from program with city	77,149	
Receipts of interest and dividends	3,060	_____
Net cash provided by investing activities	80,209	_____
Net increase(decrease) in cash	1,063	19,291
Cash and cash equivalents, beginning	46,686	_____
Cash and cash equivalents, ending	\$ 47,749	\$ 19,291

Housing Choice Vouchers Program 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
\$ 912,085	\$	\$ 445,466
( 924,696)		2,122,646
( 42,291)		( 1,850,178)
		( 788,554)
		( 20,859)
( 54,902)		( 91,479)
		( 10,902)
75,655	( 46,860)	1,656
		14,763
75,655	( 46,860)	5,517
( 5,382)	4,790,684	5,420,316
	( 4,760,272)	( 5,395,286)
( 5,382)	30,412	25,030
8,872		77,149
		11,932
8,872		89,081
24,243	( 16,448)	28,149
283,093	19,873	349,652
<u>\$ 307,336</u>	<u>\$ 3,425</u>	<u>\$ 377,801</u>

BENTON HARBOR HOUSING COMMISSION  
 COMBINING STATEMENT OF CASH FLOWS  
 BY PROGRAM (CONTINUED)

Year Ended September 30, 2007

=====

	Low Rent Program 14.850a	Capital Fund Program 14.872
<b>RECONCILIATION OF OPERATING INCOME</b>		
<b>(LOSS) TO NET CASH PROVIDED BY</b>		
<b>OPERATING ACTIVITIES:</b>		
Operating income(loss)	\$( 867,221)	\$ 47,984
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	789,424	66,003
Prior period adjustments	7,875	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-HUD		41,555
Accounts receivable-tenants	22,984	
Prepaid expenses	( 5,875)	
Inventories	576	
Increase (decrease) in liabilities:		
Bank overdraft	( 72,639)	
Accounts payable	( 45,908)	
Accrued wage/payroll taxes payable	7,921	
Accrued compensated absences	( 44,941)	
Accounts payable-PILOT	2,219	
Deferred revenues	( 5,825)	19,291
Net cash provided (used) by operating activities	\$( 211,410)	\$ 174,833

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ ( 23,948)	\$ ( 2,535)	\$ ( 845,720)
320	2,535	858,282
( 30,555)		( 22,680)
1,595		43,150
		22,984
		( 5,875)
		576
( 3,142)		( 72,639)
		( 49,050)
828		7,921
		( 44,113)
		2,219
<u>                    </u>	<u>                    </u>	<u>13,466</u>
<u>\$ ( 54,902)</u>	<u>\$</u>	<u>\$ ( 91,479)</u>

BENTON HARBOR HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended September 30, 2007

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 861,237
	<u>Public and Indian Housing Major - Direct Program</u>		
2007	Capital Fund Program	14.872	918,110
	<u>Low Income Public Housing Major - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	910,490
	<u>Low Income Public Housing Major - Direct Program</u>		
2007	Revitalization of Severely Distressed Public Housing	14.866	<u>4,760,272</u>
	Total		<u>\$7,450,109</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

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

CFDA = Catalog of Federal Domestic Assistance

BENTON HARBOR HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE**  
Year Ended September 30, 2007

=====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 1,414	\$ 19,291
114	Cash-tenant security deposits	<u>46,335</u>	<u>          </u>
100	Total cash	<u>47,749</u>	<u>19,291</u>
	Receivables:		
121	A/R-PHA projects		
122	A/R-HUD other projects		
126	A/R-tenants-dwelling rents	<u>20,081</u>	<u>          </u>
120	Total receivables, net of allowance for doubtful accounts	<u>20,081</u>	<u>          </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	27,105	
143	Inventories	625	
144	Interprogram due from	<u>85,855</u>	<u>          </u>
	Total other current assets	<u>113,585</u>	<u>          </u>
150	Total current assets	<u>181,415</u>	<u>19,291</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	121,807	
162	Buildings	14,295,965	1,091,141
163	Furn, equipment & machinery -dwellings	60,767	91,739
164	Furn, equip & mach-admin.	347,879	8,653
166	Accumulated depreciation	( 8,378,219)	( 95,487)
167	Construction in progress	<u>          </u>	<u>222,905</u>
160	Total fixed assets, net of accumulated depreciation	<u>6,448,199</u>	<u>1,318,951</u>
180	Total noncurrent assets	<u>6,448,199</u>	<u>1,318,951</u>
190	Total Assets	<u>\$ 6,629,614</u>	<u>\$ 1,338,242</u>

Housing Choice Vouchers Program 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	<u>Totals</u>
\$ 307,336	\$ 3,425	\$ 331,466
<hr/>	<hr/>	46,335
<u>307,336</u>	<u>3,425</u>	<u>377,801</u>
5,120	82,430	5,120
<hr/>	<hr/>	82,430
<hr/>	<hr/>	20,081
<u>5,120</u>	<u>82,430</u>	<u>107,631</u>
<hr/>	<hr/>	27,105
<hr/>	<hr/>	625
<hr/>	<hr/>	85,855
<hr/>	<hr/>	113,585
<u>312,456</u>	<u>85,855</u>	<u>599,017</u>
<hr/>	<hr/>	121,807
<hr/>	<hr/>	15,387,106
5,382	25,357	152,506
( 320)	( 2,877)	387,271
<hr/>	<u>6,342,692</u>	<u>( 8,476,903)</u>
<hr/>	<hr/>	6,565,597
<u>5,062</u>	<u>6,365,172</u>	<u>14,137,384</u>
<hr/>	<hr/>	14,137,384
<u>5,062</u>	<u>6,365,172</u>	<u>14,137,384</u>
<hr/>	<hr/>	14,137,384
<u>\$ 317,518</u>	<u>\$ 6,451,027</u>	<u>\$ 14,736,401</u>

BENTON HARBOR HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2007  
 =====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable	\$ 31,390	\$
321	Accrued wage/payroll taxes payable	11,280	
322	Accrued compensated absences -current portion	5,737	
333	Accounts payable-other government	97,098	
341	Tenant security deposits	46,335	
342	Deferred revenues	28,374	19,291
347	Interprogram due to		
310	Total current liabilities	<u>220,214</u>	<u>19,291</u>
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>4,324</u>	
350	Total noncurrent liabilities	<u>4,324</u>	
300	Total liabilities	<u>224,538</u>	<u>19,291</u>
	Net Assets:		
508.1	Invested in capital assets	<u>6,448,199</u>	<u>1,318,951</u>
508	Total invested in capital assets	6,448,199	1,318,951
512.1	Unrestricted net assets	<u>( 43,123)</u>	
513	Total Net Assets	<u>6,405,076</u>	<u>1,318,951</u>
600	Total Liabilities and Net Assets	<u>\$ 6,629,614</u>	<u>\$ 1,338,242</u>

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 858	\$	\$ 32,248
		11,280
656		6,393
		97,098
		46,335
		47,665
	<u>85,855</u>	<u>85,855</u>
<u>1,514</u>	<u>85,855</u>	<u>326,874</u>
<u>172</u>		<u>4,496</u>
<u>172</u>		<u>4,496</u>
<u>1,686</u>	<u>85,855</u>	<u>331,370</u>
<u>5,062</u>	<u>6,365,172</u>	<u>14,137,384</u>
5,062	6,365,172	14,137,384
<u>310,770</u>		<u>267,647</u>
<u>315,832</u>	<u>6,365,172</u>	<u>14,405,031</u>
<u>\$ 317,518</u>	<u>\$ 6,451,027</u>	<u>\$ 14,736,401</u>

BENTON HARBOR HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2007

=====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 410,690	\$
704	Tenant revenue-other	<u>17,617</u>	<u>          </u>
705	Total tenant revenue	428,307	
706	HUD PHA grants	861,237	288,478
706.1	Capital grants		629,632
711	Investment income-unrestricted	3,060	
715	Other income	14,329	
716	Gain/loss on sale of fixed assets	<u>( 261,734)</u>	<u>          </u>
700	Total revenue	<u>1,045,199</u>	<u>918,110</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	270,808	57,162
912	Auditing fees	3,500	
914	Compensated absences	( 11,976)	
915	Employee benefit contributions-adm.	88,897	
916	Other operating-administrative	194,181	96,459
	Tenant services:		
924	Tenant services-other	312	
	Utilities:		
931	Water	45,749	
932	Electricity	98,237	
933	Gas	35,920	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	246,901	
942	Ordinary maint & oper-mat'ls & other	42,636	
943	Ordinary maint & oper-contract costs	108,312	20,870
945	Employee benefit contributions	45,475	
	General expenses:		
961	Insurance premiums	145,068	
962	Other general expenses	61	
963	Payments in lieu of taxes	23,078	
964	Bad debt-tenant rents	<u>30,182</u>	<u>          </u>
969	Total operating expenses	<u>1,367,341</u>	<u>174,491</u>
970	Excess operating revenue over operating expenses	<u>( 322,142)</u>	<u>743,619</u>

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$
		410,690
		<u>17,617</u>
		428,307
910,490		2,060,205
	4,760,272	5,389,904
8,872		11,932
		14,329
		( 261,734)
<u>919,362</u>	<u>4,760,272</u>	<u>7,642,943</u>
37,112		365,082
2,000		5,500
828		( 11,148)
6,007		94,904
37,399		328,039
		312
		45,749
		98,237
		35,920
		246,901
		42,636
		129,182
		45,475
		145,068
729		790
		23,078
		<u>30,182</u>
<u>84,075</u>		<u>1,625,907</u>
<u>835,287</u>	<u>4,760,272</u>	<u>6,017,036</u>

BENTON HARBOR HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**

Year Ended September 30, 2007

=====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	789,424	66,003
	Total other expenses	<u>789,424</u>	<u>66,003</u>
900	Total expenses	<u>2,156,765</u>	<u>240,494</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	<u>(1,111,566)</u>	<u>677,616</u>
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in	113,987	
1002	Operating transfers (out)		( 113,987)
	Total other financing sources(uses)	<u>113,987</u>	<u>( 113,987)</u>
1000	Excess(deficiency) of operating revenue over(under) expenses	( 997,579)	563,629
1103	Beginning Net Assets	7,317,631	755,322
1104	Prior period adjustments, equity transfers and correction of errors	<u>85,024</u>	<u>          </u>
	Ending Net Assets	<u>\$ 6,405,076</u>	<u>\$1,318,951</u>

Housing Choice Vouchers Program <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
850,043		850,043
<u>320</u>	<u>2,535</u>	<u>858,282</u>
<u>850,363</u>	<u>2,535</u>	<u>1,708,325</u>
<u>934,438</u>	<u>2,535</u>	<u>3,334,232</u>
<u>( 15,076)</u>	<u>4,757,737</u>	<u>4,308,711</u>
		113,987
		<u>( 113,987)</u>
( 15,076)	4,757,737	4,308,711
361,463	1,607,435	10,041,851
<u>( 30,555)</u>		<u>54,469</u>
<u>\$ 315,832</u>	<u>\$ 6,365,172</u>	<u>\$ 14,405,031</u>

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

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

I have audited the financial statements of the business-type activities of Benton Harbor Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated May 23, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Benton Harbor Housing Commission  
Page Two

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

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

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

**Compliance and Other Matters**

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

I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated May 23, 2008.

This report is intended solely for the information and use of management, Board of Housing Commissioners, 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 S. Tardiff, CPA, PC*

May 23, 2008

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

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

**Compliance**

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

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

Report on Compliance with Requirements  
Applicable to Each Major Program and  
on Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Benton Harbor Housing Commission  
Page Two

**Compliance (continued)**

As described in items 07-1, 07-2, 07-3, and 07-4 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, reasonable rent, waiting list, and inspections that are applicable to the Housing Choice Voucher program. As described in items 07-5, 07-6, 07-7, and 07-8 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, inspections, criminal background checks, and choice of rent that are applicable to the Low Rent Public Housing program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to those programs. As described in items 07-9, 07-10, 07-11, and 07-12 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, inspections, and choice of rent that are applicable to the HOPE VI program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

**Internal Control Over Compliance**

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

My 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, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

Report on Compliance with Requirements  
Applicable to Each Major Program and  
on Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Benton Harbor Housing Commission  
Page Three

**Internal Control Over Compliance (Continued)**

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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, 07-3, 07-4, 07-5, 07-6, 07-7, and 07-8 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, I consider items 07-1, 07-2, 07-3, 07-4, 07-5, 07-6, 07-7, and 07-8 to be material weaknesses.

The Housing Commission's response to the findings identified in my audit are described in the accompanying corrective action plan. I did not audit the Housing Commission's response and, accordingly, I express no opinion on it.

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

*Bary Standish, CPA*

May 23, 2008

BENTON HARBOR HOUSING COMMISSION  
STATUS OF PRIOR AUDIT FINDINGS  
September 30, 2007

=====

- Finding 06-1: Housing Choice Voucher Program eligibility. This finding is **repeated** as finding 07-1.
- Finding 06-2: Housing Choice Voucher Program documentation. This finding is **repeated** as finding 07-1.
- Finding 06-3: Housing Choice Voucher Program inspections. This finding is **repeated** as finding 07-4.
- Finding 06-4: Housing Choice Voucher Program annual reviews. This finding is **cleared**, there were no exceptions for this test.
- Finding 06-5: Housing Choice Voucher Program criminal background check. This finding is **cleared**, there was only one exception for this test.
- Finding 06-6: Housing Choice Voucher Program rent reasonableness tests. This finding is **repeated** as finding 07-2.
- Finding 06-7: Housing Choice Voucher Program waiting list. This finding is **repeated** as finding 07-3.
- Finding 06-8: Housing Choice Voucher Program quality control inspections. This finding is **cleared**.
- Finding 06-9: Low Rent Public Housing Program eligibility. This finding is **repeated** as finding 07-5.
- Finding 06-10: Low Rent Public Housing Program inspections. This finding is **repeated** as finding 07-6.
- Finding 06-11: Low Rent Public Housing Program criminal background checks. This finding is **repeated** as finding 07-7.
- Finding 06-12: Low Rent Public Housing Program documentation. This finding is **repeated** as finding 07-5.
- Finding 06-13: Low Rent Public Housing Program waiting list. This finding has been **cleared**.
- Finding 06-14: HOPE VI Program tracking tenants. This finding is **repeated** as finding 07-12.
- Finding 06-15: HOPE VI Program eligibility. This finding is **repeated** as finding 07-9.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
September 30, 2007  
=====

**SECTION I - SUMMARY OF AUDITOR RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Benton Harbor Housing Commission.
2. There were no control deficiencies disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Benton Harbor Housing Commission were disclosed during the audit.
4. Seven reportable conditions in internal control over major federal award programs disclosed during the audit are reported in Section III - Federal Award Findings as findings 07-1, 07-2, 07-3, 07-4, 07-5, 07-6, 07-7, and 07-8. All of these findings were reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Benton Harbor Housing Commission expresses a qualified opinion on the Housing Choice Voucher, Low Rent Public Housing, and HOPE VI programs and an unqualified opinion on the Capital Fund program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

Low Rent Public Housing program	CFDA No. 14.850a
Housing Choice Voucher program	CFDA No. 14.871
Capital Fund program	CFDA No. 14.872
HOPE VI	CFDA No. 14.866
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Benton Harbor Housing Commission was not determined to be a low-risk auditee.

BENTON HARBOR HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 September 30, 2007

=====

**SECTION II - FINANCIAL STATEMENT FINDINGS** None

**SECTION III - FEDERAL AWARD FINDINGS**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-1:** Year Ended September 30, 2007

*Condition and Criteria:* Required and recommended **documentation** is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the voucher or if all aspects of the program are being run correctly without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We started with the 8th file and selected every 20th one after that until a total of 8 files were selected to be tested from an Ad-hoc Tenant Report provided by the Benton Harbor Housing Commission. We selected 8 tenant files to test from a population of 159 tenant files to select from.

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	1
* 90-34-04 No documentation of expenses	
5. Incorrect Verification of Assets	2
* 99-20-05 Not on worksheet	
* 90-38-05 Worksheet doesn't have asset-declaration	
6. Inspection Report missing for fiscal year or was incorrect	0
7. Lease missing or incorrect	1
* 90-41-03 Missing	
8. Application missing or incorrect	4
* 87-19-04 Missing	
* 90-41-03 Missing	
* 000001 Missing	
9. Copy of Photo I.D. missing	1
* 90-38-05 Missing 1 of 2	
10. Copy of Proof of Social Security Number Verification missing	0
* 90-38-05 Missing	

BENTON HARBOR HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-1 (Continued):** Year Ended September 30, 2007

*Population and Items Tested (Continued):* # of Errors

11.	Annual Review not done for fiscal year or not documented	0
12.	Worksheet for HUD-50058 missing or incorrect	0
13.	Notice of Rent Adjustment missing or incorrect	0
14.	Criminal Background Check not done, not documented, or it was in the file	1
	* 99-20-05 Missing	
15.	Declaration of 214 Status missing or incorrect	1
	* 000001 Signatures missing on different 214 styles	
16.	Lead Based Paint Disclosure missing or incorrect	1
	* 87-19-04 Missing	
17.	Check for Previous Eviction from Public Housing not done or incorrect	5
	* 87-19-04 Missing	
	* 99-20-05 Did not answer question on application	
	* 90-41-03 Missing	
	* 000001 Missing	
	* 90-38-05 Missing	
18.	Request for Tenancy Approval not done or incorrect	2
	* 87-19-04 Missing	
	* 90-41-03 Missing	
19.	Voucher not in file or it was incorrect	1
	* 000001 Missing	
20.	HAP Contract missing or incorrect	2
	* 000041 Not signed by housing commission	
	* 000001 Not signed by housing commission	
21.	HAP Tenancy Addendum missing	3
	* 87-19-04 Missing	
	* 99-20-05 Missing	
	* 000001 Missing	
22.	Rent Reasonableness Test missing or incorrect	8
	* 90-34-04 Not certified	
	* 87-19-04 Not certified	
	* 99-20-05 Not certified	
	* 90-41-03 Not certified	
	* 000041 Not certified	
	* 000001 Not certified	
	* 000029 Not all factors considered	
	* 90-38-05 Not certified	

BENTON HARBOR HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-1 (Continued):** Year Ended September 30, 2007

<i>Population and Items Tested (Continued)</i>	<u># of Errors</u>
23. Inspection-Life Threatening Corrections made >24 hours	2
* 90-41-03 Late	
* 000029 Late	
24. Inspection-Non-life Threatening Corrections made >30 days or past extension	5
* 90-34-04 Late	
* 90-41-03 Late	
* 000001 Late	
* 000029 Late	
* 90-38-05 Not documented	
25. Proper action not taken if (23) or (24) was violated	0
26. Annual Family Composition Review missing or incorrect	0
27. Copy of Birth Certificate missing	1
* 000029 Missing 1 of 6	
 Total	 <u>41</u>

Out of a possible 216, there were 41 exceptions from this test. This represents an exception rate of 18.98%.

*Auditor's Recommendation:* It is recommended that the Housing Commission continue the process of correcting the tenant files where possible.

*Auditor's Note:* It should be noted that the exception percentage for the voucher program for tenant file testing was much lower for this audit as compared to the previous audit.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-2:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 982.507 Rent to owner: **Reasonable rent**

*Condition and Criteria:* During testing of the tenant files and through an interview, it was discovered that there was not proper administration of the rent reasonableness testing process.

*Effect:* Tenants may have been charged rents that were too high.

*Cause:* The staff member in charge of this program performed a test of the reasonableness of the rent in some cases where required, but the process was not complete. First, all factors required by HUD and the Housing Commission's Administrative Plan should have been used in the rent reasonableness testing. Second, all of the required factors should have been used in comparing the tenant's property to the unassisted properties. In addition to the process deficiencies, 5 of the 5 initial leases tested were not properly completed. Some were not dated, one was not dated until after the lease was signed, and some were not certified. Also, 4 of the 4 rent increases tested were missing the rent reasonableness test.

*Auditor's Recommendation:* It is recommended that the staff correct the above deficiencies in the process and perform a rent reasonableness test when there is an increase in rent, for the initial leasing, if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the contract anniversary as compared with the Fair Market Rent in effect 1 year before the contract anniversary, and as otherwise directed by HUD as required by 24 CFR 982.507.

*Auditor's Note:* It should be noted that a new rent reasonableness testing system was put in place after the fiscal year end, which should improve the results in the future.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-3:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 982.204 Waiting List: Administration of the **Waiting List**.

*Condition and Criteria:* During testing of new admissions to the program, it was discovered that while there was some documentation of new admissions to the program, there was not adequate documentation that new admissions to the program were selected correctly.

*Effect:* Eligible tenants may not have been admitted to the program, or they may not have been admitted in the correct order.

*Cause:* The staff member in charge of this program did not have enough documentation to show that all of the new admissions were selected in the correct order.

*Auditor's Recommendation:* It is recommended that the Housing Commission improve the documentation process by placing a copy of a current waiting list sorted by preference in a central file every time there is an event that results in a change in the order of the applicants on the waiting list. In addition, if new admissions are not at the top of the waiting list at the time of admission, there should be adequate documentation for anyone above them on the waiting list as to why they were skipped.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007  
=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item No. 07-4:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 982.404 Maintenance: Owner and family responsibility; PHA remedies.

*Condition and Criteria:* There was no evidence in the tenant files, or available outside of the tenant files to show that all of the tenant units' **inspection** deficiencies were corrected within the required time frame.

*Effect:* Tenants may be or may have been in substandard units.

*Cause:* The Housing Commission did not make sure that deficiencies were corrected within the required time frame or did not document that they were done within the required time frame.

*Population and Items Tested:* Out of 159 tenants, 8 were tested and of these, two did not have emergency deficiencies corrected within 24 hours and 4 did not have nonemergency deficiencies corrected within 30 days. In one additional case there was not proper documentation. In summary, 5 of the 8 files tested had one or more errors. This represents an exception rate of 62.5%.

*Auditor's Recommendation:* Annual inspections should be performed on the units and the results documented on a proper inspection form. Life-threatening corrections should be made within 24 hours and nonlife-threatening corrections should be made within 30 days, or by granted extension.

BENTON HARBOR HOUSING COMMISSION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-5: Year Ended September 30, 2007**

*Condition and Criteria:* Required and recommended **documentation** is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly in all cases without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We selected five public housing files to test from an Ad-hoc Tenant Report supplied by the Housing Commission. We started with the 17th tenant on the list and selected every 50th tenant after that until a total of five were selected from a population of 259 tenant files.

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	1
* P-002-0098-09 Missing	
3. Incorrect Verification of Income	2
* P-003-0290-09 \$281 not explained	
* P-002-0098-09 10.5 hours not explained	
4. Incorrect Verification of Expenses	0
5. Incorrect Verification of Assets	2
* P-003-0244-01 Chase Bank not explained	
* P-003-0290-09 Verification doesn't match worksheet	
6. Inspection Report for fiscal year is missing or incorrect	2
* P-003-0244-01 Missing	
* P-003-0290-09 Missing	
7. Lease missing or incorrect	2
* P-007-0736-02 Pages missing	
* P-002-0098-09 Not dated	
8. Application missing or incorrect	2
* P-007-0736-02 Missing in current file	
* P-002-0170-11 Missing in current file	
9. Copy of Photo I.D. missing	0
10. Copy of Proof of Social Security Number Verification missing	0

BENTON HARBOR HOUSING COMMISSION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-5 (Continued):** Year Ended September 30, 2007

<i>Population and Items Tested (Continued):</i>	<u># of Errors</u>
11. Copy of Birth Certificate	1
* P-003-0244-01 Missing	
12. Worksheet for HUD-50058 missing or incorrect	0
13. Flat Rent/Income Based Rent Choice missing or incorrect	4
* P-003-0244-01 Not completed, not dated, no election made	
* P-003-0290-09 Incorrect flat rent	
* P-002-0098-09 Tenant not shown two rent amounts	
* P-002-0170-11 Not clearly shown two rent amounts, no selection made	
14. Notice of Rent Adjustment missing or incorrect	0
15. Criminal Background Check not done, not documented, or it was in the file	2
* P-003-0290-09 Not documented	
* P-002-0170-11 Not documented	
16. Declaration of 214 Status missing or incorrect	0
17. Check for Previous Eviction from Public Housing not done or incorrect	3
* P-007-0736-02 Older file-no process in place at that time	
* P-003-0244-01 Older file-no process in place at that time	
* P-002-0170-11 Old application-not done	
18. Annual Family Composition Review missing or incorrect	0
19. Annual Review missing or incorrect	0
20. Lead based paint disclosure missing or incorrect	<u>0</u>
 Total	 <u>21</u>

Out of a possible 100, there were 21 exceptions from this test. This represents an exception rate of 21.0%.

*Auditor's Recommendation:* It is recommended that the Housing Commission continue the process of correcting the tenant files where possible.

*Auditee's Response:* (2) Privacy Act Notice. The auditor did not notice the entire packet for recertification, however, the recert sent out 120 days in advance. The tenant was scheduled for recertification in November 2006 came in for her appointment in December 2006 forms were signed in December 2005 for which there was a 2007 privacy act form.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-5 (Continued):** Year Ended September 30, 2007

*Auditee's Response (Continued):* (6) Inspection Reports. P-003-0244-01, the 2008 inspection is in the tenant file. P-003-290-09, the 2007 inspection is in the tenant file. (7) Leases. P-007-0736-02, when an annual recert is conducted a whole lease is not put in the file just three part of the lease to save on paper work reduction, unless a new lease has been implemented. P-002-0098-09, will ensure that all files are signed and dated going forward. (8) Application, P-007-0736-02 tenant transfer from Whitfield 1 into scatter site application was not forwarded, all applicants will be forwarded on all transfer from now on, same for P-002-01070-11. (11) Copy of Birth Certificate, HUD guidebook states that award letter will be sufficient. (13) Flat Rents/Income Based Rent Choice, the property manager and her assistant will make sure all choice rent forms are completed in its entirety.

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-6:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 5.705 Uniform Physical **Inspection** Requirements.

*Condition and Criteria:* There was no evidence in the tenant files, or available outside of the tenant files to show that all of the tenant units were inspected.

*Effect:* Tenants may be in substandard units.

*Cause:* The Housing Commission did not perform annual inspections or did not have documentation showing that they were done for every tenant file tested.

*Population and Items Tested:* Out of 259 tenants, five were tested and of these, two did not have inspection records. This represents an exception rate of 40.0%.

*Auditor's Recommendation:* Annual inspections should be performed on the units and the results documented on a proper inspection form. Work orders should be generated for any deficiencies and those deficiencies corrected.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

-----

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-7:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 960.202 Tenant selection policies; 24 CFR 960.203 Standards for PHA tenant selection criteria; 24 CFR 960.204 Denial of admission for criminal activity or drug abuse by household members; 24 CFR 5.903 What special authority is there to obtain access to criminal records?; Directive Number 5.905 What special authority is there to obtain access to sex offender registration information?

*Condition and Criteria:* During testing of the tenant files, it was discovered that there was no evidence available that **criminal background checks** are being done in all cases where required.

*Effect:* Ineligible tenants may be in the program and tenant's safety could be at risk.

*Cause:* The staff member in charge of this program did not perform the background checks or did not have documentation in the tenant files to support that they were done.

*Population and Items Tested:* Out of the five files tested, two of the five did not have supporting documentation. This represents an exception rate of 40.0%.

*Auditor's Recommendation:* It is recommended that the Housing Commission obtain statewide criminal sexual background checks and general background checks when appropriate in the future. Documentation should be retained that supports that they were done when appropriate. Criminal background checks must be destroyed once the time for a challenge has passed. Alternate documentation such as a housing commission form documenting that the required checks have been done should be retained.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item No. 07-8:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 960.253 **Choice of Rent**

*Condition and Criteria:* During testing of the tenant files, it was discovered that documentation of the tenant's choice of flat rent versus income based rent was incorrectly documented in the tenant files.

*Effect:* Tenants may have been charged incorrect rents, tenants may not be aware of their rights, and tenants were not given a proper chance to select income based or flat rent.

*Cause:* The staff member in charge of this program did not obtain all of the correct and complete documentation.

*Population and Items Tested:* Out of the five files tested, four of the five didn't have all of the complete and correct documentation. This represents an exception rate of 80.0%.

*Auditor's Recommendation:* It is recommended that the Housing Commission document the tenant's annual written choice of flat rent or income based rent completely and correctly in the future.

HOPE VI Program - CFDA No. 14.866

**Finding Item 07-9:** Year Ended September 30, 2007

*Condition and Criteria:* Required and recommended **documentation** is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly in all cases without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We selected 5 files to test from an Ad-hoc Tenant Report supplied by the Housing Commission. We selected tenants in new homes using a haphazard method until a total of 5 were selected from a population of 69 tenant files.

BENTON HARBOR HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 September 30, 2007

-----

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

HOPE VI Program - CFDA No. 14.866

**Finding Item No. 07-9 (Continued):** Year Ended September 30, 2007

*Population and Items Tested (Continued):*

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	1
* L-010-0002-01 No documentation	
5. Incorrect Verification of Assets	1
* L-010-0052-02 Two bank accounts on checklist-not on worksheet	
6. Inspection Report for fiscal year is missing or incorrect	5
* L-010-0029-01 Missing	
* L-010-0002-01 Missing	
* L-010-0052-02 Inspection done after move-in	
* L-010-0040-01 Missing	
* L-010-0048-01 Missing	
7. Lease missing or incorrect	0
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	0
10. Copy of Proof of Social Security Number Verification missing	0
11. Worksheet for HUD-50058 missing or incorrect	0
12. Flat Rent/Income Based Rent Choice missing or incorrect	3
* L-010-0029-01 Flat rent amount not listed-not dated	
* L-010-0002-01 Incorrect	
* L-010-0040-01 Rent information is missing	
13. Notice of Rent Adjustment missing or incorrect	0
14. Criminal Background Check not done, not documented, or it was in the file	0
15. Declaration of 214 Status missing or incorrect	1
* L-010-0052-02 Tommie-child name signed - 3 of 4 okay	
16. Check for Previous Eviction from Public Housing not done or incorrect	0
17. Annual Family Composition Review missing or incorrect	0
18. Annual Review missing or incorrect	0
<b>Total</b>	<u><u>11</u></u>

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

HOPE VI Program - CFDA No. 14.866

**Finding Item No. 07-9 (Continued):** Year Ended September 30, 2007

*Population and Items Tested (Continued):*

Out of a possible 90, there were 11 exceptions from this test. This represents an exception rate of 12.22%.

*Auditor's Recommendation:* It is recommended that the Housing Commission continue the process of correcting the tenant files where possible.

HOPE VI Program - CFDA No. 14.866

**Finding Item No. 07-10:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 5.705 Uniform Physical **Inspection** Requirements.

*Condition and Criteria:* There was no evidence in the tenant files, or available outside of the tenant files to show that the tenant units were inspected, or that they were inspected within the required time frame.

*Effect:* Tenants may be in substandard units.

*Cause:* The Housing Commission did not perform annual inspections or did not have documentation showing that they were done on time for the tenant files tested.

*Population and Items Tested:* Out of 69 tenants, five were tested and of these, four did not have inspection records and one was done late for the year audited. This represents an exception rate of 100%.

*Auditor's Recommendation:* Initial and annual inspections should be performed within the required time frames on the units and the results documented on a proper inspection form. Work orders should be generated for any deficiencies and those deficiencies corrected.

BENTON HARBOR HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

HOPE VI Program - CFDA No. 14.866

**Finding Item No. 07-11:** Year Ended September 30, 2007

*Specific Requirement:* 24 CFR 960.253 **Choice of rent.**

*Condition and Criteria:* During testing of the tenant files, it was discovered that documentation of the tenant's choice of flat rent versus income based rent was incorrectly documented in the tenant files.

*Effect:* Tenants may have been charged incorrect rents, tenants may not be aware of their rights, and tenants were not given a proper chance to select income based or flat rent.

*Cause:* The staff member in charge of this program did not obtain all of the correct and complete documentation.

*Population and Items Tested:* Out of the five files tested, three of the five didn't have all of the complete and correct documentation. This represents an exception rate of 60.0%.

*Auditor's Recommendation:* It is recommended that the Housing Commission document the tenant's annual written choice of flat rent or income based rent completely and correctly in the future.

BENTON HARBOR HOUSING COMMISSION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 September 30, 2007

=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

HOPE VI Program - CFDA No. 14.866 (Tracking Files)

**Finding Item No. 07-12:** Year Ended September 30, 2007

*Condition and Criteria:* Required and recommended **documentation** is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly in all cases without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We selected 5 files to test from an Ad-hoc Tenant Report supplied by the Housing Commission. We selected tenants in new homes using a haphazard method until a total of 5 were selected from a population of 69 tenant files.

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. HOPE VI Resident Home Request Form	0
2. Self-Sufficiency Resident Needs Assessment (Current/Initial Assessment)	0
3. Notice of Eligibility for Relocation Assistance/ 90 Day Notice	4
* L-010-0029-01 Not signed and not dated	
* L-010-0002-01 Not signed and not dated by head of household	
* L-010-0052-02 Not signed and not dated	
* L-010-0048-01 Not signed and not dated	
4. Notice of Individual Service Plan Meeting	0
5. Section 8 Voucher Information Form	0
6. Notice of Relocation Eligibility	1
* L-010-0029-01 Missing	—
Total	5

Out of a possible 30, there were 5 exceptions from this test. This represents an exception rate of 16.67%.

*Auditor's Recommendation:* It is recommended that the Housing Commission continue the process of correcting the tenant files where possible. In the case of permanent documentation, it is recommended that the Housing Commission obtain written authorization from HUD to recreate the incorrect documents in the files.

BENTON HARBOR HOUSING COMMISSION  
CORRECTIVE ACTION PLAN  
September 30, 2007

=====

**Finding 07-1 - Missing Documentation - Voucher Program**

A checklist has been generated to assure all proper forms are in the files, dated and signed by the appropriate persons.

**Finding 07-2 - Reasonable Rent - Voucher Program**

The Housing Choice Voucher program has implemented a new system for rent reasonableness that certifies that they are comparable to unassisted units.

**Finding 07-3 - Waiting List - Voucher Program**

The staff has been trained to pull applicants of the waiting list according to preference which is date, time, and working.

**Finding 07-4 - Inspections - Voucher Program**

A tracking system has been implemented to track all inspections including 24 hour deficiencies to make sure they are corrected within a timely manner and routine deficiencies are corrected within 30 days. Quality control measures are in place.

**Finding 07-5 - Missing Documentation - Low Rent Public Housing Program**

A checklist has been generated to assure all proper forms are in the files, dated and signed by the appropriate persons.

**Finding 07-6 - UPCS Inspections - Low Rent Public Housing Program**

The Housing Commission has implemented a new process of inspection effective May of 2007 inspections are conducted on an annual basis by the inspector which are generated 90 to 120 days in advance by the Assistance manager according to recertification date. Going forward the Assistance manager will make sure the inspection is in the tenants file.

**Finding 07-7 - Criminal Background Checks - Low Rent Public Housing Program**

A form has been generated to document that a criminal background check has been conducted and will be in all files.

**Finding 07-8 - Choice of Rent - Low Rent Public Housing Program**

A new form has been implemented and will have the correct flat rent which contains the tenants' signature. A choice of rent form is in the new file. The Housing Commission has been using the form since January 2008.

BENTON HARBOR HOUSING COMMISSION  
CORRECTIVE ACTION PLAN (CONTINUED)  
September 30, 2007

=====

**Finding 07-9** - Documentation - HOPE VI Program

Please see item 07-5 above.

**Finding 07-10** - Inspections - HOPE VI Program

Please see item 07-6 above.

**Finding 07-11** - Choice of Rent - HOPE VI Program

Please see item 07-8

**Finding 07-12** - Documentation of Tracking Files - HOPE VI Program

We will be implementing the auditor's recommendation.

The corrective action plan will be the responsibility of Juanita G. Gibbs, Deputy Executive Director for the Low Rent Public Housing and Housing Choice Voucher Programs. The corrective action plan for the HOPE VI program will be the responsibility of Patricia Hurst, Director of the HOPE VI program. The corrective action plan is in the process of being implemented as of the audit date.

BENTON HARBOR HOUSING COMMISSION  
**ADJUSTING JOURNAL ENTRIES**  
 September 30, 2007

=====

Financial  
 Assessment  
 Electronic  
 Submission

<u>Line #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<u>Low Rent Public Housing Program</u>			
		(1)	
126	Accounts receivable-		
	tenants-dwelling rents	\$ 20,080.81	
342	Deferred revenues		\$ 20,080.81

BENTON HARBOR HOUSING COMMISSION

**INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS**

SEPTEMBER 30, 2007

May 23, 2008

To the Board of Commissioners  
Benton Harbor Housing Commission

I have audited the financial statements of the business-type activities of each major fund of the Benton Harbor Housing Commission ("Housing Commission") for the year ended September 30, 2007, and have issued my report thereon dated May 23, 2008. Professional standards require that I provide you with the following information related to my audit.

**My Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133.**

As stated in my engagement letter dated December 5, 2007, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing my audit, I considered Benton Harbor Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Benton Harbor Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit. Also in accordance with OMB Circular A-133, I examined, on a test basis, evidence about Benton Harbor Housing Commission's compliance with the types of compliance requirements

**My Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133 (Continued)**

described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Benton Harbor Housing Commission's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on Benton Harbor Housing Commission's compliance with those requirements.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Benton Harbor Housing Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending September 30, 2007. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There is no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of depreciation and allowance for bad debt were based on the useful life of the asset and the likelihood of collecting tenant rents based on prior experience. I evaluated the key factors and assumptions used to develop the depreciation expense and bad debt expense allowance in determining that they were reasonable in relation to the financial statements taken as a whole.

**Significant Audit Findings (Continued)**

*Qualitative Aspects of Accounting Practices (Continued)*

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures.

*Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

*Corrected and Uncorrected Misstatements*

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

*Management Representations*

I have requested certain representations from management that are included in the management representation letter dated May 23, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting

Communication with Those Charged with Governance  
Page Four

**Significant Audit Findings (Continued)**

*Management Consultations with Other Independent Accountants  
(Continued)*

accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Please see the next section for Management Advisory Comments.

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

Very truly yours,

*Barry E. Gaudette, CPA*

Barry E. Gaudette, CPA

BENTON HARBOR HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
September 30, 2007  
=====

**Invoices**

We selected 66 expenditure transactions to test in the operations account of public housing. The results of my test were two missing check copies, 12 copies of invoices (rather than the original invoice), 4 statements (without invoices attached), and 11 expenditures missing invoice/or documentation to support the transaction. This represents an exception rate of 10.9%.

We recommend the Housing Commission attach the original of the invoice to the check copy whenever possible.

**Negative compensated absences**

The Housing Commission's general ledger is showing a negative balance for compensated absences of \$11,976 in the income statement for the fiscal year ended September 30, 2007. According to GAAP 34 there should not be a negative balance in compensated absences.

We recommend the Housing Commission keep track of compensated absences (sick, vacation, holiday pay etc.) during the year and report to the fee accountant these amounts so they are classified correctly.

**Compensated Payouts**

The Housing Commission during the fiscal year, paid \$32,964.98 during August 2007 to 11 employees to payoff accumulated absences. The Housing Commission has adopted a policy of employees need to use all of their vacation leave time by September 30th of each year, or lose it.

We recommend that the Housing Commission withhold payroll taxes and issue W-2's on this type of disbursement.

**Accounts Receivable-Tenants**

The accounts receivable balance as of September 30, 2007 is \$20,081, which is more than 10% of monthly tenant rents. Also, there was not an allowance for bad debts set up.

We recommend the Housing Commission follow its policies and attempt to reduce the receivables from tenants and have the fee accountant help calculate an allowance for bad debts at the year end.

BENTON HARBOR HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
(CONTINUED)

September 30, 2007

=====

**Policies**

The Housing Commission needs to update its policies and is in the process of doing that.

**Segregation of Duties - Payroll**

Currently the payroll duties are handled by one person.

We recommend that the Housing Commission develop a procedure where at least one other staff person is involved in the review process. Even though a payroll service is used, more than one person needs to be involved.