

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended

Unit Name	BATTLE CREEK HOUSING CO	County	CALHOUN	Type	CITY	MuniCode	13-7-523
Opinion Date	May 12, 2008	Audit Submitted	Jun 19, 2008	Fiscal Year	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".

- 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?
- 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- 5. Did the local unit adopt a budget for all required funds?
- 6. Was a public hearing on the budget held in accordance with State statute?
- 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?
- 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- 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.)
- 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.)
- 12. Is the local unit free of repeated reported deficiencies from previous years?
- 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- 18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 5,264,118.00
General Fund Expenditure:	\$ 5,476,502.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 19,747,711.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

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)	JOHN	Last Name	DIPIERO	Ten Digit License Number	1101011469				
CPA Street Address	397 SANDRIDGE DRIVE	City	HEMLOCK	State	MI	Zip Code	48626	Telephone	+1 (989) 642-2092
CPA Firm Name	JOHN C DIPIERO, CPA, PC	Unit's Street Address	250 CHAMPION STREET	City	BATTLE CREEK	Zip Code	49037		

BATTLE CREEK HOUSING COMMISSION

Financial Statements

September 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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This discussion and analysis of the Battle Creek Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Similar to that used by most businesses, our statements are prepared on the accrual basis of accounting. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission including our business activity and Component Unit, the Battle Creek Housing Corporation (Georgetown Estates).

Fund Statements

The Financial Data Schedule reports the Commission's operation in more detail. The Commission reports all its activities using Proprietary 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.

Entity-Wide Financial Highlights

The assets of the PHA exceed its liabilities as of September 30, 2007 by \$ 19,747,711 (Net Assets). The PHA's investment in Capital Assets – net of related debt as of September 30, 2007 was \$ 13,078,721. The PHA's total revenue not including loss from the sale of assets, for the year ending September 30, 2007 was \$ 5,625,653.

The Commission was awarded the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2007</u>
Operating Subsidies	\$ 572,320	\$ 545,931
Capital Fund Program Funding	\$ 244,255	\$ 522,194
Section 8 Housing Choice Vouchers	\$ 2,512,951	\$ 2,359,310
Section 8 New Construction (Bedford Manor)	\$ 413,382	\$ 299,688
Total:	\$ 3,742,908	\$ 3,727,123

The low rent, Turnkey III, and Housing Choice Voucher programs ended the fiscal year with residual receipts adding to the project reserves.

Management Discussion and Analysis, continued

Overview of the Financial Statements

The following financial statements are included in this report.

Statement of Net Assets – reports the Commission current financial resources; its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the PHA.

Statement of Capital Assets – reports the changes in fixed assets for the fiscal year.

Combining Balance Sheet and Income Statements – reports the Asset, Liabilities, Income and Expenses broken down into the various projects and/or funds of the Commission.

STATEMENT OF NET ASSETS

	<u>2007</u>	<u>2006</u>	<u>Increase/<Decrease></u>
Cash and Investments	\$ 8,347,438	\$ 7,670,734	\$ 544,310
Other Current Assets	66,373	70,858	<4,485>
Accounts/Notes Receivable	132,394	98,006	34,388
Non-Current/Capital Assets	<u>13,078,721</u>	<u>12,619,236</u>	<u>459,485</u>
TOTAL ASSETS	\$ <u>21,492,532</u>	\$ <u>20,458,834</u>	\$ <u>1,033,698</u>
Current Liabilities	\$ 392,621	\$ 432,977	\$ <40,356>
Non-Current Liabilities	<u>1,352,197</u>	<u>1,351,290</u>	<u>907</u>
TOTAL LIABILITIES	\$ <u>1,744,818</u>	\$ <u>1,784,267</u>	\$ <u><39,449></u>
Invested in Capital Assets	\$ 12,198,721	\$ 11,684,236	514,485
Unrestricted Net Assets	6,197,742	5,788,909	408,833
Restricted Net Assets	<u>1,351,248</u>	<u>1,201,422</u>	<u>149,826</u>
TOTAL NET ASSETS	\$ <u>19,747,711</u>	\$ <u>18,674,567</u>	\$ <u>1,073,144</u>

Cash increased due to a favorable investment market. In the months of January through April 2007 the Commission sold three of the MI0350009 Turnkey III homes built in 1996.

Management Discussion and Analysis, continued

STATEMENT OF CAPITAL ASSETS

	<u>2007</u>	<u>2006</u>	Increase/ <Decrease>
Land	\$ 822,315	\$ 822,315	\$
Buildings	22,016,525	22,249,323	<232,798>
Furniture & Equipment Dwellings	56,452	56,452	
Furniture & Equipment Admin	434,170	408,818	25,352
Construction In Progress	<u>930,997</u>	<u>569,462</u>	<u>361,535</u>
	\$24,260,459	\$24,106,370	\$ 154,089
Less Accumulated Depreciation	<u>11,181,738</u>	<u>11,487,134</u>	<u><305,396></u>
	<u>\$13,078,721</u>	<u>\$12,619,236</u>	<u>\$ 459,485</u>

As of year-end, the Housing Commission had \$13,078,721 in a variety of capital assets as reflected in this schedule, which represents a net increase (additions, deductions, and depreciation) of \$459,485 from the end of 2006. This net increase is due to the reduction in building value from sold Turnkey III Homeownership units and the addition of equipment purchases and use of Capital Funds for capital improvement efforts.

STATEMENT OF COMBINING INCOME STATEMENT
PRIOR AND CURRENT FISCAL YEAR ENDING SEPTEMBER 30

	<u>2007</u>	<u>2006</u>	
REVENUE			
Tenant Revenue	\$ 1,544,455	\$ 1,569,463	
HUD Operating & CFP	3,727,123	3,742,908	
Investment Income	349,320	264,718	
on Sale of Fixed Assets	< 105,395>	<100,936>	Loss
Fraud Recovery	8,666	-	
Other Revenue	<u>101,484</u>	<u>110,153</u>	
TOTAL REVENUE	\$ <u>5,625,653</u>	\$ <u>5,586,306</u>	

Management Discussion and Analysis, continued

EXPENSES

Administrative Expenses	\$ 947,796	\$ 966,717
Tenant Services	139,889	140,814
Utilities	409,004	402,328
Ordinary Maintenance	755,587	705,592
General Expense	270,234	308,945
Extraordinary Maintenance	-	6,174
Casualty Losses Non Capitalized	-	-
Housing Assistance Payments	2,325,192	2,271,285
Depreciation	<u>628,800</u>	<u>747,464</u>
TOTAL EXPENSES	\$ <u>5,476,502</u>	\$ <u>5,549,319</u>

EXCESS OF REVENUE

OVER EXPENSES \$ 149,151 \$ 36,987

In spite of a reduction in Tenant Revenue, HUD operating subsidy, and Capital Fund grant programs there was an overall increase in revenue as a result of greater Investment Income due to better financial institution yields. The overall decrease in Total Expenses is primarily due to a reduction in Outside Management Fees. The 2007 FY also saw an increase in the utility costs and increased Section 8 Voucher housing assistance payments related to increased fair market rents and units leased. All expenditures were closely monitored, and the 2007 Net Excess of Revenue over Expenses increased \$112,164 from 2006.

General Fund Budgetary Highlights

By Resolution 2006-05, the Commission approved an operating budget on June 28, 2006 for the fiscal year ending September 30, 2007. On September 26, 2007 by Resolution 2007-11 the Commission adopted a budget revision to more closely reflect actual income and expense.

Again in FYE 2007 as it had in the previous fiscal year, revenue increased significantly in the Turnkey III home ownership program as a result of steady employment and fewer turnovers. This program does not receive operating subsidy. The program ended with residual receipts of \$103,438.86.

Management Discussion and Analysis, continued

On August 9, 2007 a contract was signed with Baseline Constructors of Chelsea Michigan for \$638,000 for the 2005-2006 Capital Fund Program Grants.

In addition to the operating budget, the Annual Plan and 5-Year Plan were reviewed by the Resident Council and staff, submitted timely and approved.

Entity Wide Capital Assets

At the close of the fiscal year, the Commission had \$13,078,721 in capital assets with accumulated depreciation of \$11,181,738. Improvements to dwelling units and site improvements are detailed in the 2004 and 2005/2007 Capital Fund Program work schedule.

The business activities and component unit information is not included in the above figures but are included in the single audit performed for FYE 12/31/2006.

Commission's Position

The Commission's financial position remains strong. The Commission's board and management staff are concerned however with the ongoing reduction in U.S. Dept of HUD rental subsidy grants. A series of pro-rations of the US Dept of HUD's operating subsidy The Performance Funding Schedule for the 2007 calendar year was prorated by HUD at 83% of the authorized grant.

Development of new income based rental communities continues to occur in the Battle Creek area. In spite of this direct competition the Battle Creek Housing Commission staff have been able to maintain an annual occupancy average of 94.92% at FYE 09/30/2007; a slight increase over the previous year. Contributing factors are believed to be the general downturn in the United States economy, improved coordination of turnover efforts by the maintenance and front office staff, and reliance more on contracted turnover services.

In January 2007 the U.S. Dept of HUD notified the Battle Creek Housing Commission that BCHC's Contract Administration of Bedford Manor a privately owned Section 8 New Construction development in the City of Battle Creek was being turned over to the Michigan State Housing Development Authority. This decision by HUD impacted thirteen Michigan Housing Commissions. This determination amounts to a loss in annual revenue from this program in administrative fees of \$36, 225. Battle Creek Housing Commission had been the Contract Administrator for over twenty five years.

Management Discussion and Analysis, continued

In the 2007 fiscal year the Housing Commission continued its transition to the Asset Based Management model as required by the Dept of HUD. Financial statements and budgets are prepared individually for three AMP groupings and a Central Office Cost Center. Review of these statements and “AMP specific” accounts payable and receivable duties are now the responsibility of individual agency staff responsible for those properties.

The Commission expects to continue to provide safe, sanitary and decent housing to the low and moderately low income families of Battle Creek. With anticipated reductions in funding of traditional public housing services, it is the Commission’s desire to seek out opportunities that will support these services.

Lee Talmage
Executive Director

The financial report is designed to provide a general overview of the Housing Commission's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Battle Creek Housing Commission, 250 Champion Street, Battle Creek, Michigan, 49017.

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Battle Creek Housing Commission
250 Champion Street
Battle Creek, Michigan 49017

Independent Auditor's Report

I have audited the financial statements of the Battle Creek Housing Commission's Business Type Activities as of and for the year ended September 30, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the 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 from 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 Battle Creek Housing Commission as of September 30, 2007, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 12, 2008, on my consideration of the Battle Creek Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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

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 not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

May 12, 2008

BATTLE CREEK HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

ASSETS

C-3030

CURRENT ASSETS

Cash	\$	4,617,847	
Cash- Restricted		1,351,248	
Accounts Receivable (net of allowance for doubtful account \$ 15,325)		92,709	
Accounts Receivable- Other		132,394	
Investments		1,923,175	
Investments-Restricted		174,034	
Prepaid Expenses		<u>56,031</u>	
Total Current Assets	\$		8,347,438

NON CURRENT ASSETS

Land	\$	822,315	
Buildings		22,016,525	
Furniture, Equipment- Dwellings		56,452	
Furniture, Equipment- Administrative		434,170	
Construction in Progress		930,997	
Accumulated Depreciation		<u>(11,181,738)</u>	
Total Non Current Assets			13,078,721

OTHER ASSETS

Notes Receivable-non current	\$	2,873	
Other Assets		<u>63,500</u>	
Total Other Assets			<u>66,373</u>

TOTAL ASSETS \$ 21,492,532

BATTLE CREEK HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

LIABILITIES

C-3030

CURRENT LIABILITIES

Accounts Payable	\$	63,986	
Accrued Liabilities		67,751	
Accounts Payable-HUD		22,233	
Tenants Security Deposit		82,898	
Accounts Payable- Other Governments		51,385	
Deferred Revenue		32,717	
Current Portion Long Term Debt		55,000	
Other Current Liabilities		<u>16,651</u>	
<u>Total Current Liabilities</u>			\$ 392,621

NONCURRENT LIABILITIES

Housing Revenue Bonds	\$	880,000	
Less: current portion above		<u>55,000</u>	
		\$ 825,000	
Homeownership Trust Funds		507,508	
Compensated Absences-noncurrent		<u>19,689</u>	
<u>Total Noncurrent Liabilities</u>			<u>1,352,197</u>
<u>Total Liabilities</u>			\$ 1,744,821

NET ASSETS:

Investment in Fixed Assets, net of related Debt	\$	12,198,721	
Restricted Net Assets		1,351,248	
Unrestricted Net Assets		<u>6,197,742</u>	
<u>Total Net Assets</u>			<u>19,747,711</u>
<u>TOTAL LIABILITIES & NET ASSETS</u>			\$ <u>21,492,532</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Statement of Income and Expenses
For the year ended September 30, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$ 1,523,509	
Tenant Revenue-Other	20,946	
HUD Grants	3,365,588	
Interest Income	349,320	
Other Income	<u>5,119</u>	
 <u>Total Operating Revenue</u>		 \$ 5,264,118

OPERATING EXPENSES

Administrative	\$ 947,796	
Tenant Services	139,889	
Utility Expenses	409,004	
Ordinary Maintenance	755,587	
General Expenses	270,234	
Housing Assistance Payments	2,325,192	
Depreciation Expenses	<u>628,800</u>	
 <u>Total Operating Expenses</u>		 <u>5,476,502</u>
 <u>Operating Income (Loss)</u>		 \$ (212,384)

CAPITAL CONTRIBUTIONS

		<u>361,535</u>
 <u>Changes in Net Assets</u>		 \$ 149,151
 Total Net Assets- Beginning	 \$ 18,674,567	
Prior Period Adjustment:		
Correction of Prior Depreciation	<u>923,993</u>	<u>19,598,560</u>
 Total Net Assets- Ending		 \$ <u>19,747,711</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended September 30, 2007

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Business Type Activities</u>
Receipts from Customers	\$ 1,485,223
Payments to Suppliers	(3,655,687)
Payments to Employees	(652,683)
HUD Grants	3,365,588
Other Receipts (Payments)	<u>354,075</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>1,354,980</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Capital Assets	\$ (125,178)
Contributed Capital	361,535
Principal paid on Debt	<u>(55,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(299,710)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (86,017)
Unrestricted Cash & Cash Equivalents-Beginning	<u>4,703,864</u>
Unrestricted Cash & Cash Equivalents-Ending	\$ <u>4,617,847</u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Net Profit or (Loss)	\$ (212,384)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	628,800
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(19,215)
Investments	316,551
Prepaid Expenses	2,657
Other Assets	4,485
Changes in Liabilities Increase (Decrease):	
Accounts Payable	198,929
Accrued Liabilities	19,571
Security Deposits	1,162
Accounts Payable- Other Governments	45,700
Deferred Revenue	2,118
Other Liabilities	<u>(1,429)</u>
Net Cash Provided by Operating Activities	\$ <u>(212,980)</u>

The Accompanying Notes are an Integral part of the Financial Statements

BATTLE CREEK HOUSING COMMISSION
Notes to Financial Statements
September 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Battle Creek Housing Commission, Battle Creek, Michigan, (Commission) was created by ordinance of the city of Battle Creek. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 35	Low rent program	320	units
	Homeownership	70	units
	Housing Choice Voucher	590	units
MI 35	New Construction	125	units
Component Unit		132	units
Business Activity Account		15	units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including a component unit.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

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

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 328,488
Petty Cash	100
Savings Accounts	<u>4,289,259</u>
Financial Statement Total	<u>\$ 4,617,847</u>

Cash-Restricted:

Money Market Fund	<u>\$ 1,351,248</u>
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Investments:

Savings Certificates	<u>\$ 1,923,175</u>
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Investments-Restricted:

Revenue & Operating Fund	\$ 14,863
Bond Fund	45,934
Tax & Insurance Fund	63,938
Repair & Replacement Fund	12,870
Investment Fund	<u>36,429</u>
Financial Statement Total	<u>\$ 174,034</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 328,488	\$	\$	\$ 328,488	\$ 328,488
Petty Cash	100			100	100
Money Market	<u>4,289,259</u>			<u>4,289,259</u>	<u>4,289,259</u>
Total Cash	<u>\$ 4,617,847</u>	\$	\$	<u>\$ 4,617,847</u>	<u>\$ 4,617,847</u>
Cash- Restricted:					
Money Market	<u>\$ 1,351,248</u>	\$	\$	<u>\$ 1,351,248</u>	<u>\$ 1,351,248</u>

Notes to Financial Statements- continued

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investments:					
C/D's	\$ <u>1,923,175</u>	\$ _____	\$ _____	\$ <u>1,923,175</u>	\$ <u>1,923,175</u>
Investments-Restricted:					
Money Market	\$ <u>174,034</u>	\$ _____	\$ _____	\$ <u>174,034</u>	\$ <u>174,034</u>

All cash and investments are protected by either FDIC, SIPC, or independent bank collateral guarantees.

Note 3: Accounts Receivable-Other

Accounts receivable other consists of the following:

Accounts Receivable- HUD	\$ 112,930
Accrued Interest Receivable	138
Accounts Receivable- Miscellaneous	<u>18,170</u>
Financial Statement Total	<u>\$ 132,394</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 29,970
Inventories (Net of Allowance for Obsolescence)	<u>26,061</u>
Financial Statement Total	<u>\$ 56,031</u>

Note 5: Fixed Asset Analysis

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 822,315	\$	\$	\$ 822,315
Buildings	22,249,323		232,798	22,016,525
Furniture & Equipment-Dwellings	56,452			56,452
Furniture & Equipment-Admin	408,818	25,352		434,170
Construction in Progress	<u>569,462</u>	<u>361,535</u>		<u>930,997</u>
	\$24,106,370	\$ 386,887	\$ 232,798	\$24,260,459
Less Accumulated Depreciation	<u>11,487,134</u>	<u>628,800</u>	<u>934,196</u>	<u>11,181,738</u>
	<u>\$12,619,236</u>	<u>\$ (241,913)</u>	<u>\$ (701,398)</u>	<u>\$13,078,721</u>

Notes to Financial Statements, continued

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 58,242
Compensated Absences-current	<u>9,509</u>
Financial Statement Total	<u>\$ 67,751</u>

Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

Accounts Payable- Battle Creek	\$ 51,385
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Note 8: Long Term Debt

The Commission's Component Unit, the Battle Creek Housing Corporation (Corporation) issued housing revenue bonds, Series 1997A, in 1997 for \$ 1,375,000 to fund the purchase of rental property and equipment. The bonds are payable in annual installments of \$ 55,000 through February 2025. Interest is due monthly at a fixed rate of 3.1%

The following represents the principal & interest obligations over the next five years:

	<u>Principal</u>	<u>Interest</u>
December 31, 2008	\$ 55,000	\$ 25,575
December 31, 2009	55,000	23,870
December 31, 2010	55,000	22,165
December 31, 2011	55,000	20,460
December 31, 2012	55,000	18,755
Thereafter	550,000	84,398

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Note 9 :Restricted Net Assets

Restricted Net Assets, Low Rent Program consist of proceeds from the sale of Turnkey III homes; the ultimate disposition of those proceeds will result from instruction from the funding agency, HUD. Restricted Net Assets Component Unit, consists of required Principle, Interest, Repair & Replacement, and Tax Escrow accounts; these accounts are required as a part of the Bond Indenture established by the lending institution.

Note 10:Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 11:Retirement.

The Battle Creek Housing Commission contributes to the Municipal Employees Retirement System (MERS), a multi-employer defined benefit pension plan administered by the State of Michigan, through the City of Battle Creek. Details concerning the plan are available in the annual report of MERS. This plan covers all regular, full-time employees of the Housing Commission. Other statistical and historical data required by GASB Statement No. 5 is not included herein because data for the Housing Commission is not available from MERS.

The Commission pays the City of Battle Creek to administer all payroll and benefits for the Commission; the employees are not City employees, however, all statistical data of the Commission employees is included in the reporting of the City, therefore, no Commission statistical data is available.

Note 12:Component Unit

In 1997 the Battle Creek Housing Commission wanted to obtain and operate a 132 unit low to moderately low income complex; however, at the time the Commission was prohibited from owning property, therefore the Commission formed a non profit, 501 (c)(3) organization to act on its behalf securing the financing and acquisition of the complex. In addition, the city of Battle Creek pledged its full faith and credit behind the Housing Bonds. The Component Unit is managed and audited by a separate group; the results of the operations are reported as a blended unit in the combining balance sheet and combining income statement as a component unit of the Battle Creek Housing Commission. The Component Unit has a December 31, year end.

Note 13:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 46,154,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 14:Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 15:Combining Financial Data Schedules

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals; under principals of consolidation, inter fund transactions are eliminated.

Note 16:Subsequent Event- Termination of Annual Contributions

HUD notified the Commission that the Section 8 HAP contract for the Section 8 Mod Rehab Program would be terminated, effective July 1, 2007. The Commission acted as the HAP administrator and received a management fee; the Commission had no part in the decision to transfer the contract, and no recourse in the decision.

Note 17:Prior Period Adjustment

The Commission used an accelerated write off of the Turnkey III homes in error in prior years; a prior period adjustment of \$ 923,993 to the beginning balance corrects the over depreciated balance.

Battle Creek Housing Commission

30-Sep-07

MI-035

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Business Activity Account	New Construc- tion Section 8	Component Unit	Capital Projects Funds 14.872	TOTAL
Line Item #								
	ASSETS:							
	CURRENT ASSETS:							
	Cash:							
111	Cash - unrestricted	3,107,064	1,080,687	266,578		80,620		4,534,949
112	Cash - restricted - modernization and development							-
113	Cash - other restricted	1,351,248						1,351,248
114	Cash - tenant security deposits	53,833		3,270		25,795		82,898
100	Total cash	4,512,145	1,080,687	269,848	-	106,415	-	5,969,095
	Accounts and notes receivables:							
121	Accounts receivable - PHA projects							-
122	Accounts receivable - HUD other projects				-		112,930	112,930
124	Accounts receivable - other government	-						-
125	Accounts receivable - miscellaneous	8,098				10,072		18,170
126	Accounts receivable- tenants - dwelling rents	106,123		1,911		-		108,034
126.1	Allowance for doubtful accounts - dwelling rents	(15,325)						(15,325)
126.2	Allowance for doubtful accounts - other							-
127	Notes and mortgages receivable- current					-		-
128	Fraud recovery		1,156					1,156
128.1	Allowance for doubtful accounts - fraud							-
129	Accrued interest receivable	138	-					138
120	Total receivables, net of allowances for doubtful accounts	99,034	1,156	1,911	-	10,072	112,930	225,103
	Current investments							-
131	Investments - unrestricted	442,969	-	1,480,206		-		1,923,175
132	Investments - restricted					174,034		174,034
142	Prepaid expenses and other assets	23,008	189			6,773		29,970
143	Inventories	26,061						26,061
143.1	Allowance for obsolete inventories	-						-
144	Interprogram - due from	103,564	-	-	23,183			126,747
146	Amounts to be provided							-
150	TOTAL CURRENT ASSETS	5,206,781	1,082,032	1,751,965	23,183	297,294	112,930	8,474,185
	NONCURRENT ASSETS:							
	Fixed assets:							
161	Land	707,443	-	49,872	-	65,000		822,315
162	Buildings	20,418,503				1,485,746	112,276	22,016,525
163	Furniture, equipment & machinery - dwellings	-	-			56,452		56,452
164	Furniture, equipment & machinery - administration	308,055	24,628	70,335		31,152	-	434,170
165	Leasehold improvements						-	-
167	Construction in Progress						930,997	930,997
166	Accumulated depreciation	(10,669,881)	(15,598)	(47,672)		(394,079)	(54,508)	(11,181,738)
160	Total fixed assets, net of accumulated depreciation	10,764,120	9,030	72,535	-	1,244,271	988,765	13,078,721
171	Notes and mortgages receivable - non-current					2,873		2,873
172	Notes and mortgages receivable-non-current-past due							-
174	Other assets					63,500		63,500
175	Undistributed debits							-
176	Investment in joint ventures							-
180	TOTAL NONCURRENT ASSETS	10,764,120	9,030	72,535	-	1,310,644	988,765	13,145,094
190	TOTAL ASSETS	15,970,901	1,091,062	1,824,500	23,183	1,607,938	1,101,695	21,619,279

	LIABILITIES AND EQUITY:							
	LIABILITIES:							
	CURRENT LIABILITIES							
311	Bank overdraft	-					-	
312	Accounts payable ≤ 90 days	24,139	970	0	38,877	-	63,986	
313	Accounts payable > 90 days past due						-	
321	Accrued wage/payroll taxes payable	40,592	12,874			4,779	58,245	
322	Accrued compensated absences	4,227	695			4,587	9,509	
324	Accrued contingency liability						-	
325	Accrued interest payable						-	
331	Accounts payable - HUD PHA programs		-	-	22,233		22,233	
332	Accounts Payable - PHA Projects							
333	Accounts payable - other government	51,385	-	-			51,385	
341	Tenant security deposits	53,833		3,270	-	25,795	82,898	
342	Deferred revenues	31,373				1,344	32,717	
343	Current portion of Long-Term debt - capital projects					55,000	55,000	
344	Current portion of Long-Term debt - operating borrowings						-	
345	Other current liabilities	2,447				14,204	16,651	
346	Accrued liabilities - other	-					-	
347	Inter-program - due to	23,183	-		-	103,564	126,747	
310	TOTAL CURRENT LIABILITIES	231,179	14,539	3,270	22,233	135,220	519,371	
	NONCURRENT LIABILITIES:							
351	Long-term debt, net of current- capital projects					825,000	825,000	
352	Long-term debt, net of current- operating borrowings						-	
353	Noncurrent liabilities- other	468,348		39,160			507,508	
354	Accrued Compensated Absences-non current	16,908	2,781				19,689	
350	TOTAL NONCURRENT LIABILITIES	485,256	2,781	39,160	-	825,000	1,352,197	
300	TOTAL LIABILITIES	716,435	17,320	42,430	22,233	960,220	1,871,568	
	EQUITY:							
501	Investment in general fixed assets						-	
	Contributed Capital:							
502	Project notes (HUD)						-	
503	Long-term debt - HUD guaranteed						-	
504	Net HUD PHA contributions	-	-	-			-	
505	Other HUD contributions	-					-	
507	Other contributions	-					-	
508	Total contributed capital	-	-	-	-	-	-	
508.1	Investment in Fixed Assets net of related debt	10,764,120	9,030	72,535	-	364,271	12,198,721	
	Reserved fund balance:							
509	Reserved for operating activities						-	
510	Reserved for capital activities						-	
511	Total reserved fund balance	-	-	-	-	-	-	
512	Undesignated fund balance/retained earnings	-	-	-	-	-	-	
512.1	Unrestricted Net Assets	3,139,098	1,064,712	1,709,535	950	283,447	6,197,742	
512.2	Restricted Net Assets	1,351,248	-	-	-	-	1,351,248	
513	TOTAL EQUITY	15,254,466	1,073,742	1,782,070	950	647,718	19,747,711	
600	TOTAL LIABILITIES AND EQUITY	15,970,901	1,091,062	1,824,500	23,183	1,607,938	21,619,279	

Battle Creek Housing Commission

30-Sep-07

MI-035

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Business Activity Account	New Construction Section 8	Component Unit	Capital Projects Funds 14.872	TOTAL
Line Item #								
REVENUE:								
703	Net tenant rental revenue	855,724		5,400		662,385		1,523,509
704	Tenant revenue - other	20,946						20,946
705	Total tenant revenue	876,670	-	5,400	-	662,385	-	1,544,455
706	HUD PHA grants	545,931	2,359,310	-	299,688		522,194	3,727,123
708	Other government grants							-
711	Investment income - unrestricted	244,693	18,359	79,136		7,132		349,320
712	Mortgage interest income	-						-
714	Fraud recovery		8,666	-				8,666
715	Other revenue	20,349	-	34,310		46,825		101,484
716	Gain or loss on the sale of fixed assets	(105,395)						(105,395)
720	Investment income - restricted							-
700	TOTAL REVENUE	1,582,248	2,386,335	118,846	299,688	716,342	522,194	5,625,653
EXPENSES:								
Administrative								
911	Administrative salaries	159,895	117,430	12,682		137,940	40,353	468,300
912	Auditing fees	5,673	427	-		-		6,100
913	Outside management fees	-	-	-	27,529	34,594		62,123
914	Compensated absences	5,204	-	-			3,851	9,055
915	Employee benefit contributions- administrative	100,408	75,731	7,241		-	20,847	204,227
916	Other operating- administrative	118,863	13,612	10,853		50,851	3,812	197,991
Tenant services								
921	Tenant services - salaries	14,316						14,316
922	Relocation costs	-						-
923	Employee benefit contributions- tenant services	1,095						1,095
924	Tenant services - other	43,777		-			80,701	124,478
Utilities								
931	Water	60,587				32,794		93,381
932	Electricity	142,126				78,388		220,514
933	Gas	95,109						95,109
934	Fuel							-
935	Labor							-
937	Employee benefit contributions- utilities							-
938	Other utilities expense	-						-
Ordinary maintenance & operation								
941	Ordinary maintenance and operations - labor	170,067						170,067
942	Ordinary maintenance and operations - materials & other	52,100	364			21,782		74,246
943	Ordinary maintenance and operations - contract costs	258,200	1,679	414		153,158		413,451
945	Employee benefit contributions- ordinary maintenance	97,823						97,823
Protective services								
951	Protective services - labor							-

952	Protective services- other contract costs							-
953	Protective services - other							-
955	Employee benefit contributions- protective services							-
	General expenses							
961	Insurance premiums	68,853	1,744	109		16,920		87,626
962	Other General Expenses	-	591			23,162		23,753
963	Payments in lieu of taxes	51,385				49,256		100,641
964	Bad debt - tenant rents	13,629				16,577		30,206
965	Bad debt- mortgages					-		-
966	Bad debt - other							-
967	Interest expense					28,008		28,008
968	Severance expense							-
969	TOTAL OPERATING EXPENSES	1,459,110	211,578	31,299	27,529	643,430	149,564	2,522,510
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	123,138	2,174,757	87,547	272,159	72,912	372,630	3,103,143
971	Extraordinary maintenance	-				-		-
972	Casualty losses - non-capitalized	-				-		-
973	Housing assistance payments	-	2,053,033	-	272,159	-		2,325,192
974	Depreciation expense	533,252	2,463	632		51,979	40,474	628,800
975	Fraud losses							-
976	Capital outlays- governmental funds	-						-
977	Debt principal payment- governmental funds							-
978	Dwelling units rent expense							-
900	TOTAL EXPENSES	1,992,362	2,267,074	31,931	299,688	695,409	190,038	5,476,502
	OTHER FINANCING SOURCES (USES)							
1001	Operating transfers in (out)	11,095					(11,095)	-
1002	Operating transfers out							-
1003	Operating transfers from/to primary government							-
1004	Operating transfers from/to component unit							-
1005	Proceeds from notes, loans and bonds							-
1006	Proceeds from property sales							-
1010	TOTAL OTHER FINANCING SOURCES (USES)	11,095	-	-	-	-	(11,095)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER)	(399,019)	119,261	86,915	-	20,933	321,061	149,151

BATTLE CREEK HOUSING COMMISSION
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2007

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3030 Operating Subsidies	\$ <u>545,931</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3030 Section 8 Housing Choice Vouchers	\$ <u>2,359,310</u>
* <u>CFDA 14.872 Capital Projects Grants</u>	
C-3030 Capital Projects Funds	\$ <u>522,194</u>
<u>CFDA 14.182 Section 8 New Construction</u>	
C-3030 New Construction	\$ <u>299,688</u>
	\$ <u>3,727,123</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

*Connotes Major Program Category

BATTLE CREEK HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2007

The prior audit of the Battle Creek Housing Commission for the period ended September 30, 2006, contained no audit findings.

BATTLE CREEK HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2007

I have audited the financial statements of the Battle Creek Housing Commission of Battle Creek, Michigan, as of and for the year ended September 30, 2007, and have issued my report thereon dated May 12, 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 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 my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Battle Creek 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I did not identify any deficiencies in internal control over financial reporting that I consider to be a *control or significant deficiency*, as defined above.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
May 12, 2008

BATTLE CREEK HOUSING COMMISSION
Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133
September 30, 2007

Compliance

I have audited the compliance of the Battle Creek Housing Commission of Battle Creek, Michigan, 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 Commission's major federal programs are identified in the summary of auditors' 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 Commission's management. My responsibility is to express an opinion on the 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 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 on the Commission's compliance with those requirements.

In my opinion, the 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 Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the 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 the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance 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 did not identify any deficiencies in internal control over financial reporting that I consider to be a *control or significant deficiency*, as defined above.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. I did not identify any deficiencies in internal control over financial reporting that I consider to be a *material weaknesses*, as defined above.

This report is intended solely for the information and use of, management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
May 12, 2008

BATTLE CREEK HOUSING COMMISSION
 Schedule of Findings and Questioned Cost
 September 30, 2007

1) Summary of Auditor's Results:

Programs:

	Major Program	Non Major Program
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects	X	
Section 8 New Construction		X

Opinions:

Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Control Deficiency (ies) noted	_____ Yes	_____ X _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Control Deficiency (ies) noted	_____ Yes	_____ X _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee; due to A-133 requirements.

Name of Federal Program	Major Program	Questioned Costs	Audit Finding Number
Low Rent Public Housing	Yes	None	N/A
Section 8 Housing Choice	Yes	None	N/A
Section 8 New Construction	NO	None	N/A
Capital Projects Funds	Yes	None	N/A