

ELK RAPIDS HOUSING COMMISSION  
ELK RAPIDS, MICHIGAN

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

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Elk Rapids Housing Commission	County Antrim
Fiscal Year End September 30, 2007	Opinion Date February 4, 2008	Date Audit Report Submitted to State February 17, 2008	

We affirm that:

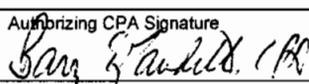
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     |    |  |
|-----|----|--|
| YES | NO | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----|----|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and 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, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC	Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue	City Traverse City	State MI
		Zip 49686
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA	License Number 11050

ELK RAPIDS HOUSING COMMISSION  
**TABLE OF CONTENTS**  
September 30, 2007

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis (unaudited)	3-9
Basic Financial Statements:	
Statement of Net Assets	10-11
Statement of Revenues, Expenses, and Changes in Net Assets	12
Statement of Cash Flows	13-14
Notes to Financial Statements	15-24
SUPPLEMENTAL INFORMATION	
Combining Statement of Net Assets By Program	24-26
Combining Statement of Revenues, Expenses, and Changes in Net Assets By Program	27
Combining Statement of Cash Flows By Program	28-29
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	30
Financial Data Schedule	31-34
REPORTS ON COMPLIANCE AND ON 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 <i>Government Auditing Standards</i>	35-36
Schedule of Findings:	
Section I - Financial Statement Findings	37
Section II - Federal Awards Findings	38-40
ADJUSTING JOURNAL ENTRIES	41

***Independent Auditor's Report***

Board of Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the accompanying financial statements of the business-type activities of the Elk Rapids Housing Commission, Michigan, a component unit of the City of Elk Rapids, 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 basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Elk Rapids 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.

Elk Rapids Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated February 4, 2008, on my consideration of Elk Rapids 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 assessing the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 9, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 basic financial statements that collectively comprise Elk Rapids Housing Commission, Michigan's basic financial statements. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The 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 all material respects, in relation to the basic financial statements taken as a whole.

*Sandy E. Jandrich, CPA, PC*

February 4, 2008

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

As management of the Elk Rapids Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Elk Rapids Housing Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis letter of the Elk Rapids 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 transactions 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 \$475,031. The net assets increased by \$5,945, an increase of 1.3% over the prior year.

Revenues and contributions for the Commission were \$125,543 for the year ended September 30, 2007. This was an increase of \$463 or 0.4% over the prior year.

Expenses for the Commission were \$119,358 for the year ended September 30, 2007. This was a decrease of \$4,006 or 3.2% from the prior year.

HUD operating grant subsidies were \$46,218 for the year ended September 30, 2007. This was an increase of \$17,403 or 60.4% over the prior year. Capital contributions for the Commission were \$7,095 for the year ended September 30, 2007. This was a decrease of \$29,220 or 80.5% from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

**Elk Rapids 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.

**Elk Rapids 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. The Housing Commission has 20 low rent units.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital needs. Normally a Housing Commission has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies, but since the Housing Commission has less than 250 units they are permitted to use more than 20%. This program is the primary funding source for physical improvements to its properties.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$475,031 at the close of the year ended September 30, 2007 up from \$469,086 in 2006. The increase in net assets of \$5,945 was due to the change in net assets for the year of \$6,185 and a prior period adjustment of \$(240) to adjust prior year costs.

The unrestricted net assets were \$136,724 as of September 30, 2007. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

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

**FINANCIAL ANALYSIS (CONTINUED)**

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

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
Current and other assets	\$ 143,045	\$ 116,855	\$ 26,190
Capital assets	338,307	359,868	( 21,561)
Total assets	<u>\$ 481,352</u>	<u>\$ 476,723</u>	<u>\$ 4,629</u>
Current liabilities	\$ 6,321	\$ 7,637	\$( 1,316)
Net assets:			
Invested in capital assets	338,307	359,868	( 21,561)
Unrestricted net assets	<u>136,724</u>	<u>109,218</u>	<u>27,506</u>
Total net assets	<u>475,031</u>	<u>469,086</u>	<u>5,945</u>
Total liab. & net assets	<u>\$ 481,352</u>	<u>\$ 476,723</u>	<u>\$ 4,629</u>

Current and other assets increased by \$26,190, in part, due to the difference between depreciation of \$28,656 and capital outlays of \$7,095, and the change in net assets of \$6,185.

Current liabilities decreased by \$1,316, in part, decreasing accounts payable to vendors by \$373, decreasing accrued wages and payroll taxes by \$373, and a decrease in tenant security deposits of \$570 from the prior fiscal year.

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. The decrease of \$21,561 in capital assets, is due to the depreciation expense of \$28,656, netted against net, capital outlays of \$7,095.

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.

As can be seen in the following table total revenues and contributions increased slightly by \$463, from the prior fiscal year. Tenant rents increased by \$6,947 over the prior fiscal year, due to tenant incomes being higher. The increase of \$2,057 in interest income is due primarily to interest rates being higher. Other income increased by \$3,276 over the prior year, due in part the Housing Commission charging \$10 per month for air conditioning for units using it.

**Elk Rapids 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,**

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
<b>Revenues and Contributions</b>			
Dwelling rent	\$ 61,299	\$ 54,352	\$ 6,947
Interest income	5,671	3,614	2,057
Other income	5,260	1,984	3,276
HUD operating grants	46,218	28,815	17,403
Capital contributions	<u>7,095</u>	<u>36,315</u>	<u>( 29,220)</u>
<b>Total Revenues and Contributions</b>	<u>125,543</u>	<u>125,080</u>	<u>463</u>
<b>Expenses</b>			
Personal services	35,263	35,768	( 505)
Utilities	27,034	31,419	( 4,385)
Operations and maintenance	12,964	10,369	2,595
Insurance	5,315	5,482	( 167)
Other supplies and expenses	10,126	12,637	( 2,511)
Depreciation	<u>28,656</u>	<u>27,689</u>	<u>967</u>
<b>Total Expenses</b>	<u>119,358</u>	<u>123,364</u>	<u>( 4,006)</u>
<b>Change in Net Assets</b>	<u>\$ 6,185</u>	<u>\$ 1,716</u>	<u>\$ 4,469</u>

Total expenses for the Commission decreased by \$4,006, in part, due gas utility costs decreasing by \$4,479 from the prior year.

The following represents changes in Federal Assistance received:

<u>Program Source</u>	<u>06/30/07</u>	<u>06/30/06</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Public Housing Operating Subsidy	\$ 45,461	\$ 28,815	\$ 16,646	57.8%
Capital Fund Program	<u>7,852</u>	<u>36,315</u>	<u>( 28,463)</u>	<u>(78.4)%</u>
<b>Total</b>	<u>\$ 53,313</u>	<u>\$ 65,130</u>	<u>\$( 11,817)</u>	<u>(18.1)%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The Public Housing subsidy increased over the prior year due to a combination of factors including tenant rent changes, utilities, and HUD's adjustments. Capital Fund Program grants were used for both capital improvements and for operating purposes. During the fiscal year ending September 30, 2007 the 2006 CFP grant of \$21,626 expended \$7,852 this fiscal, of which, \$7,095 was for capital outlays.

**Budget Analysis:**

A Low Rent Public Housing Operating Budget for the fiscal year ended September 30, 2007 was prepared.

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

**OPERATIONAL HIGHLIGHTS**

The Elk Rapids Housing Commission provided 20 housing units to very low-income elderly and persons with disabilities during the fiscal year ending September 30, 2007. During the fiscal year ending September 30, 2007, the Elk Rapids Housing Commission maintained a lease-up rate of 100.0% in its Public Housing Program. This lease-up rate is in line with HUD guidelines.

Funding levels for operations and capital improvements are not expected to continue to increase, in accordance with funding cuts at the federal level for these programs. Elk Rapids Housing Commission will continue to provide safe, affordable housing to eligible persons of low income, and will pursue capital improvements in accordance with the five-year and annual plan. There are 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 in net assets).

**CAPITAL ASSETS**

**Capital Assets** - The Elk Rapids Housing Commission's investment in capital assets, as of September 30, 2007 amounts to \$338,307 (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	\$ 104,946	\$ 104,946	\$
Buildings	691,147	670,278	20,869
Furniture, equip. & machinery-admin.	9,396	9,396	
Construction in progress	<u>805,489</u>	<u>13,774</u>	<u>( 13,774)</u>
	805,489	798,394	7,095
Accumulated depreciation	<u>( 467,182)</u>	<u>( 438,526)</u>	<u>( 28,656)</u>
Total	<u>\$ 338,307</u>	<u>\$ 359,868</u>	<u>\$ ( 21,561)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$21,561 or 6.0% in terms of net book value.

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

**CAPITAL ASSETS (CONTINUED)**

Federal Fiscal Year 2006 Capital Funds were obligated for the installation of 19 toilets for \$3,120, resurfacing the parking lot of \$1,800, \$2,176 to raise 15 patio slabs, and \$14,530 to replace kitchen/hallway/bathroom flooring in 11 units.

The Housing Commission has been awarded \$21,012 capital funding for 2007. The PHA had an energy audit performed and the Board has chosen to do three major areas of concern all at the same time. Using their reserves to cover some of the cost. Future years CFP monies will go directly into operating to replace the money used to pay for the following improvements:

Upgrade boiler	\$ 23,900
Replace hot water heater	18,000
Hall lighting improvements	1,740
Water usage improvements	450
Upgrade apt. temperature control	<u>14,500</u>
	<u>\$ 58,590</u>

The payback for these projects is 3 1/2 years.

**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 the federal government will continue to provide us with the funding to continue to provide safe, sanitary, and decent housing to our residents.

**REQUEST FOR INFORMATION**

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

Barbara George, Executive Director  
701 Chippewa Street  
Elk Rapids, Michigan 49629

FINANCIAL STATEMENTS

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
September 30, 2007  
=====

**ASSETS**

Current Assets:		
Cash and cash equivalents	\$	9,506
Receivables		4,039
Investments-unrestricted		127,878
Prepaid expenses		1,232
Inventories		<u>390</u>
Total Current Assets		<u>143,045</u>
Capital Assets:		
Land		104,946
Buildings		691,147
Equipment		<u>9,396</u>
		805,489
Less: accumulated depreciation		<u>( 467,182)</u>
Net Capital Assets		<u>338,307</u>
Total Assets	\$	<u><u>481,352</u></u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
September 30, 2007  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:		
Accounts payable	\$	1,259
Tenant security deposit liability		5,017
Accrued expenses		<u>45</u>
Total Current Liabilities		<u>6,321</u>
Net Assets:		
Invested in capital assets		338,307
Unrestricted net assets		<u>136,724</u>
Total Net Assets		<u>475,031</u>
Total Liabilities and Net Assets	\$	<u><u>481,352</u></u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS**  
 Year Ended September 30, 2007  
 =====

<b>OPERATING REVENUES:</b>	
Dwelling rent	\$ <u>61,299</u>
Total operating revenues	<u>61,299</u>
 <b>OPERATING EXPENSES:</b>	
Administration	32,047
Tenant services	468
Utilities	27,034
Ordinary maintenance and operation	25,838
General expenses	5,315
Depreciation	<u>28,656</u>
Total operating expenses	<u>119,358</u>
Operating income(loss)	<u>( 58,059)</u>
 <b>NONOPERATING REVENUES:</b>	
Investment interest income	5,671
Other income	5,260
Operating grants	46,218
Capital grants	<u>7,095</u>
Total nonoperating revenues	<u>64,244</u>
Change in net assets	6,185
Prior period adjustment	( 240)
Net assets, beginning	<u>469,086</u>
Net assets, ending	<u><u>\$ 475,031</u></u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS**  
Year Ended September 30, 2007

=====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 61,299
Cash payments to other suppliers of goods and services	( 55,183)
Cash payments to employees for services	<u>( 35,636)</u>
Net cash (used) by operating activities	<u>( 29,520)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Tenant security deposits	( 570)
Operating grants	46,605
Other revenue	<u>4,669</u>
Net cash provided by noncapital financing activities	<u>50,704</u>

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

Capital grants	7,095
Payments for capital acquisitions	<u>( 7,095)</u>
Net cash (used) by capital and related financing activities	<u>                    </u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments increased	( 36,736)
Receipts of interest and dividends	<u>5,671</u>
Net cash (used) by investing activities	<u>( 31,065)</u>

Net increase(decrease) in cash	( 9,881)
--------------------------------	----------

Cash, beginning	<u>19,387</u>
-----------------	---------------

Cash, ending	<u><u>\$ 9,506</u></u>
--------------	------------------------

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended September 30, 2007

=====

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

Operating income(loss)	\$ ( 58,059)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	28,656
Prior period adjustment	( 240)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Prepaid expenses and other assets	869
Increase (decrease) in liabilities:	
Accounts payable	( 373)
Accrued wages/payroll taxes	<u>( 373)</u>
Net cash (used) by operating activities	<u>\$ ( 29,520)</u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
September 30, 2007

=====

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

Elk Rapids Housing Commission(Housing Commission) is a component unit of the City of Elk Rapids, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Elk Rapids on March 31, 1971, consisting of a five member board appointed by the Village Manager. The Commission was established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the 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: Elk Rapids 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	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 commissions to modernize public housing developments.

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

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

### **Measurement Focus**

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

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

### **Basis of Accounting**

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

## **1(d) Assets, 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 Notes 2(b) and 3(a).

### **Interprogram Receivables and Payables**

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

### **Receivables**

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

### **Inventories**

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

### **Budgets and Budgetary Accounting**

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

### **Estimates and Assumptions**

The 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

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

**Estimates and Assumptions (Continued)**

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 \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

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

Buildings	40 years
Building improvements	15 years
Furniture, equipment and machinery	5 years

**Compensated Absences**

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

- \* Vacation leave, employees terminating employment for any reason are entitled to payment for all accrued unused vacation time, calculated on pro rata basis.
- \* Sick leave, there is not a policy for sick leave.
- \* Personal leave, unpaid personal leaves of absence for a period of up to thirty (30) days may be requested. If more time is required for leave, approval is needed by the Commission.

Personal leave may be granted for justifiable reasons and granted only after all accrued unused vacation leave has been exhausted.

The amount of accumulated benefits at September 30, 2007, was minimal, and is not recorded as a liability in the applicable funds.

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

**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.

**Interfund Transfers**

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

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

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

**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

**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 collateral 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

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

**2(d) Income Taxes**

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

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

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

### 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.

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	\$ 14,483	\$ 14,483	\$ _____	\$ _____	\$ 9,421
Total Deposits	\$ <u>14,483</u>	\$ <u>14,483</u>	\$ _____	\$ _____	\$ <u>9,421</u>

#### Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Notes 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission(or public trust) based upon whether the investments are insured or registered and upon who holds the security at September 30, 2007. The categories of credit risk are defined as follows:

Category 1: Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2: Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing Commission's name.

Category 3: Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

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

**Investments (Continued)**

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Certificate of deposits	\$ 93,527	\$	\$	\$ 93,527	\$ 93,527
Governmental mutual funds	<u>34,351</u>	<u>                    </u>	<u>                    </u>	<u>34,351</u>	<u>34,351</u>
	<u>\$127,878</u>	<u>\$                    </u>	<u>\$                    </u>	<u>\$ 127,878</u>	<u>\$127,878</u>

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

Carrying amount of deposits	\$ 9,421
Petty cash	50
Change fund	25
Laundry equipment change fund	10
Investments	<u>127,878</u>
Total	<u>\$ 137,384</u>
Cash and cash equivalents:	
Enterprise activities	\$ 142,446
Enterprise activities - checks written in excess of deposits	<u>( 5,062)</u>
Total	<u>\$ 137,384</u>

**3(b) Accounts Receivable**

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

HUD	\$ 3,488
Miscellaneous	<u>591</u>
	<u>\$ 4,079</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	\$ 104,946	\$	\$	\$ 104,946
Buildings	647,737	22,541		670,278
Furniture, equip. & machinery - administration	<u>9,396</u>			<u>9,396</u>
	762,079	<u>\$ 22,541</u>	<u>\$</u>	<u>784,620</u>
Less accumulated depreciation	<u>( 438,275)</u>	<u>\$ ( 28,675)</u>	<u>\$</u>	<u>( 466,950)</u>
Total	<u>\$ 323,804</u>			<u>\$ 317,670</u>

3(c) Capital Assets (Continued)

	<u>Balance</u> 09/30/06	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> 09/30/07
<b>Capital Fund</b>				
<b>Program</b>				
Buildings	\$ 22,541	\$ 6,844	\$( 8,516)	\$ 20,869
Construction in progress	<u>13,774</u>		<u>( 13,774)</u>	
	36,315	<u>\$ 6,844</u>	<u>\$( 22,290)</u>	20,869
Less accumulated depreciation	<u>( 251)</u>	<u>\$( 232)</u>	<u>\$ 251</u>	<u>( 232)</u>
Total	<u>\$ 36,064</u>			<u>\$ 20,637</u>
<b>Combined Totals</b>				<u>\$ 338,307</u>

3(d) Accounts Payable

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

Accounts payable - vendors \$ 1,259

3(e) Interprogram Transactions and Balances

The Capital Fund Program transferred \$757 to the Low Rent Program during the fiscal year ending September 30, 2007.

There were no interprogram payables from the capital fund program to the low rent program as of September 30, 2007.

NOTE 4: Other Information

4(a) Pension Plan

The Housing Commission does not provide a pension plan for eligible full-time employees.

4(b) Prior Period Adjustment

Low Rent Program

Correction of prior year costs	\$( 240)
Net equity on completed CFP 501-05	<u>22,290</u>
	<u>\$ 22,050</u>

Capital Fund Program

Net equity transfer of completed CFP 501-05	<u>\$(22,290)</u>
---	-------------------

**4(c) 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>
a. Crime, building and contents, errors and omissions, and auto.	Purchased insurance with the Michigan Township Participating Plan.
b. Injuries to employees (workers' compensation)	Purchased from the Accident Fund Insurance Company of

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(d) Commitments and Contingencies**

**Commitments - Construction**

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

	<b><u>Funds Approved</u></b>	<b><u>Funds Expended - Project to Date</u></b>
2006 CFP	\$ 21,626	\$ 21,626
2007 CFP	<u>21,012</u>	<u>-</u>
	<u>\$ 42,638</u>	<u>\$ 21,626</u>

**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.

SUPPLEMENTARY INFORMATION

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS  
 BY PROGRAM**

September 30, 2007

=====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash-unrestricted	\$ 4,489	\$
Cash-tenant security deposits	5,017	
Receivables:		
HUD	3,448	
Accounts - miscellaneous	591	
Investments-unrestricted	127,878	
Prepaid expenses and other assets	1,232	
Inventories	<u>390</u>	
Total current assets	<u>143,045</u>	
Capital assets:		
Land	104,946	
Buildings	670,278	20,869
Equipment	<u>9,396</u>	
	784,620	20,869
Less accumulated depreciation	<u>( 466,950)</u>	<u>( 232)</u>
Net capital assets	<u>317,670</u>	<u>20,637</u>
Total Assets	<u>\$ 460,715</u>	<u>\$ 20,637</u>

Totals

\$ 4,489  
5,017

3,448  
591  
127,878  
1,232  
390

143,045

104,946  
691,147  
9,396  
805,489  
( 467,182)

338,307

\$ 481,352

ELK RAPIDS 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	\$ 1,259	\$
Tenant security deposit liability	5,017	
Accrued expenses	<u>45</u>	<u>          </u>
Total current liabilities	<u>6,321</u>	<u>          </u>
Net assets:		
Invested in capital assets	317,670	20,637
Unrestricted net assets	<u>136,724</u>	<u>          </u>
Total net assets	<u>454,394</u>	<u>20,637</u>
Total Liabilities and Net Assets	<u>\$ 460,715</u>	<u>\$ 20,637</u>

Totals

\$ 1,259  
5,017  
45  
6,321

338,307  
136,724

475,031

\$ 481,352

ELK RAPIDS 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	\$ 61,299	\$
Nondwelling rent	<u>          </u>	<u>          </u>
Total operating revenues	<u>61,299</u>	<u>          </u>
<b>OPERATING EXPENSES:</b>		
Administration	32,047	
Tenant services	468	
Utilities	27,034	
Ordinary maintenance and operation	25,838	
General expenses	5,315	
Depreciation	<u>28,424</u>	<u>232</u>
Total operating expenses	<u>119,126</u>	<u>232</u>
Operating income(loss)	<u>( 57,827)</u>	<u>( 232)</u>
<b>NONOPERATING REVENUES (EXPENSES) :</b>		
Operating transfers in(out)	757	( 757)
Investment interest income	5,671	
Other income	5,260	
Operating grants	45,461	757
Capital grants	<u>          </u>	<u>7,095</u>
Total nonoperating revenues (expenses)	<u>57,149</u>	<u>7,095</u>
Change in net assets	( 678)	6,863
Prior period adjustments	22,050	(22,290)
Net assets, beginning	<u>433,022</u>	<u>36,064</u>
Net assets, ending	<u>\$ 454,394</u>	<u>\$ 20,637</u>

Totals

\$ 61,299

61,299

32,047  
468  
27,034  
25,838  
5,315  
28,656

119,358

( 58,059)

5,671  
5,260  
46,218  
7,095

64,244

6,185

( 240)

469,086

\$ 475,031

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
**BY PROGRAM**

Year Ended September 30, 2007

=====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 61,299	\$
Cash payments to other suppliers of goods and services	( 55,183)	
Cash payments to employees for services	<u>( 35,636)</u>	
Net cash (used) by operating activities	<u>( 29,520)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers in(out)	757	( 757)
Interprogram due from/payable	3,835	( 3,835)
Tenant security deposits	( 570)	
Operating grants	42,013	4,592
Other revenue	<u>4,669</u>	
Net cash provided by noncapital financing activities	<u>50,704</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants		7,095
Payments for capital acquisitions		<u>( 7,095)</u>
Net cash (used) by capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments increased	( 36,736)	
Receipts of interest and dividends	<u>5,671</u>	
Net cash (used) by investing activities	<u>( 31,065)</u>	
Net increase(decrease) in cash	( 9,881)	
Cash, beginning	<u>19,387</u>	
Cash, ending	<u>\$ 9,506</u>	<u>\$</u>

Totals

\$ 61,299

( 55,183)

( 35,636)

( 29,520)

( 570)

46,605

4,669

50,704

7,095

( 7,095)

( 36,736)

5,671

( 31,065)

( 9,881)

19,387

\$ 9,506

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
**BY PROGRAM (CONTINUED)**

Year Ended September 30, 2007

=====

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

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

**BY OPERATING ACTIVITIES:**

Operating income(loss)	\$( 57,827)	\$( 232)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	28,424	232
Prior period adjustment	( 240)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Prepaid expenses and other assets	869	
Increase (decrease) in liabilities:		
Accounts payable	( 373)	
Accrued wages/payroll taxes	<u>( 373)</u>	<u>          </u>
Net cash (used) by operating activities	<u>\$( 29,520)</u>	<u>          </u>

Totals

\$ ( 58,059)

28,656  
( 240)

869

( 373)  
( 373)

\$ ( 29,520)

ELK RAPIDS 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 Nonmajor - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 45,461
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	<u>7,852</u>
	Total		<u>\$ 53,313</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

ELK RAPIDS 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	\$ 4,489	\$
114	Cash-tenant security deposits	<u>5,017</u>	<u>          </u>
100	Total cash	<u>9,506</u>	<u>          </u>
	Receivables:		
122	A/R-HUD other projects	3,448	
125	A/R-miscellaneous	<u>591</u>	<u>          </u>
120	Total receivables, net of allowance for doubtful accounts	<u>4,039</u>	<u>          </u>
	Current Investments:		
131	Investments-unrestricted	<u>127,878</u>	<u>          </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	1,232	
143	Inventories	<u>390</u>	<u>          </u>
	Total other current assets	<u>1,622</u>	<u>          </u>
150	Total current assets	<u>143,045</u>	<u>          </u>
	Noncurrent Assets:		
	Fixed assets:		
161	Land	104,946	
162	Buildings	670,278	20,869
164	Furn, equip & mach-admin.	9,396	
166	Accumulated depreciation	<u>( 466,950)</u>	<u>( 232)</u>
160	Total fixed assets, net of accumulated depreciation	<u>317,670</u>	<u>20,637</u>
180	Total noncurrent assets	<u>317,670</u>	<u>20,637</u>
190	Total Assets	<u>\$ 460,715</u>	<u>\$ 20,637</u>

Totals

\$ 4,489  
5,017

9,506

3,448  
591

4,039

127,878

1,232  
390

1,622

143,045

104,946  
691,147  
9,396  
( 467,182)

338,307

338,307

\$ 481,352

ELK RAPIDS 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 EQUITY/NET ASSETS</b>			
Liabilities:			
Current Liabilities:			
312	Accounts payable<=90 days	\$ 1,259	\$
321	Accrued wage/payroll taxes payable	45	
341	Tenant security deposits	<u>5,017</u>	<u>          </u>
310	Total current liabilities	<u>6,321</u>	<u>          </u>
300	Total liabilities	<u>6,321</u>	<u>          </u>
Equity:			
508.1	Invested in capital assets	<u>317,670</u>	<u>20,637</u>
508	Total equity	317,670	20,637
Net Assets:			
512.1	Unrestricted net assets	<u>136,724</u>	<u>          </u>
513	Total equity/net assets	<u>454,394</u>	<u>20,637</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 460,715</u>	<u>\$ 20,637</u>

Totals

\$ 1,259

45

5,017

6,321

6,321

338,307

338,307

136,724

475,031

\$ 481,352

ELK RAPIDS 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	\$ 61,299	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>61,299</u>	
706	HUD PHA grants	45,461	757
706.1	Capital grants		7,095
711	Investment income-unrestricted	5,671	
715	Other revenue	<u>5,260</u>	
700	Total revenue	<u>117,691</u>	<u>7,852</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	19,999	
912	Auditing fees	2,500	
915	Employee benefit contributions-adm.	2,390	
916	Other operating-administrative	7,158	
	Tenant Services:		
924	Tenant services-other	468	
	Utilities:		
931	Water	8,034	
932	Electricity	6,976	
933	Gas	12,024	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	12,053	
942	Ordinary maint & oper-mat'ls & other	2,105	
943	Ordinary maint & oper-contract costs	10,859	
945	Employee benefit contributions- ordinary maintenance	821	
	General expenses:		
961	Insurance premiums	<u>5,315</u>	
969	Total operating expenses	<u>90,702</u>	
970	Excess operating revenue over operating expenses	<u>26,989</u>	<u>7,852</u>

Totals

\$ 61,299

61,299  
46,218  
7,095  
5,671  
5,260

125,543

19,999  
2,500  
2,390  
7,158

468

8,034  
6,976  
12,024

12,053  
2,105  
10,859

821

5,315

90,702

34,841

ELK RAPIDS 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:		
974	Depreciation expense	<u>28,424</u>	<u>232</u>
	Total other expenses	<u>28,424</u>	<u>232</u>
900	Total expenses	<u>119,126</u>	<u>232</u>
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in	757	
1002	Operating transfers (out)	<u>( )</u>	<u>( 757)</u>
	Total other financing sources(uses)	<u>757</u>	<u>( 757)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 678)	6,863
1104	Prior period adjustments, equity transfers and correction of errors	22,050	( 22,290)
1103	Beginning Net Assets	<u>433,022</u>	<u>36,064</u>
	Ending Net Assets	<u>\$ 454,394</u>	<u>\$ 20,637</u>

Totals

28,656

28,656

119,358

757

( 757 )

6,185

( 240 )

469,086

\$ 475,031

**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  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the financial statements of the business-type activities of Elk Rapids 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 February 4, 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Commission's ability to initiate, authorize, record, process, or report financial data reliably in

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*  
Elk Rapids Housing Commission  
Page Two

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

accordance with generally accepted accounting 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. I consider the deficiency described as 07-1 in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is not a material weakness.

**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 07-2, 07-3, and 07-4.

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 Standell, CPA*

February 4, 2008

ELK RAPIDS HOUSING COMMISSION  
SCHEDULE OF FINDINGS  
September 30, 2007  
=====

**SECTION I - FINANCIAL STATEMENT FINDINGS**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item 07-1:** Year Ended September 30, 2007

*Criteria:* Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires me to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

*Condition:* Currently, the Housing Commission fee accountant prepares the interim financial reports.

*Cause:* The fee accountant does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

*Effect:* Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

*Recommendation:* At this time, I recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement of Auditing Standards #112.

*Client Response:* We are aware of this deficiency and believe it is not cost beneficial to change. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

ELK RAPIDS HOUSING COMMISSION  
**SCHEDULE OF FINDINGS (CONTINUED)**  
 September 30, 2007  
 =====

**SECTION II - FEDERAL AWARD FINDINGS**

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item 07-2:** 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 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 public housing files to test from an Occupants and Rent Report supplied by the Housing Commission. We started with the 1st tenant on the list and selected every 3rd tenant after that until a total of 5 were selected from a population of 20 tenant files.

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

	<u># of Exceptions</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	1
* Unit #4 - Incorrect, should be higher	
4. Incorrect Verification of Expenses	2
* Unit #1 - Actual medical expenses were higher than on the HUD-50058	
* Unit #7 - Expenses were too low on form	
5. Incorrect Verification of Assets	3
* Unit #1 - HUD 50058, balances were not verified	
* Unit #4 - 894 not on HUD Form	
* Unit #7 - Not done in 2006	
6. Inspection Report for fiscal year is missing or incorrect	1
* Unit #1 - Missing	
7. Lease missing or incorrect	1
* Unit #14 - Missing pages of lease	
8. Application missing or incorrect	1
* Unit #7 - Missing	
9. Copy of Photo I.D. missing	1
* Unit #10 - Missing	
10. Copy of Proof of Social Security Number Verification missing	1
* Unit #10 - Missing	

ELK RAPIDS HOUSING COMMISSION  
**SCHEDULE OF FINDINGS (CONTINUED)**  
 September 30, 2007  
 =====

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

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item 07-2:** Year Ended September 30, 2007

*Population and Items Tested (Continued):*

	<u># of Exceptions</u>
11. Flat Rent/Income Based Rent Choice missing or incorrect	5
* Unit #1 - Not done	
* Unit #4 - Not done	
* Unit #7 - Not done	
* Unit #10 - Not done	
* Unit #14 - Not done	
12. Notice of Rent Adjustment missing or incorrect	0
13. Criminal Background Check not done, not documented, or it was in the file	2
* Unit #4 - Not done yet	
* Unit #14 - Not done yet	
14. Declaration of 214 Status missing or incorrect	2
* Unit #7 - Incorrect	
* Unit #10 - Not signed	
15. Check for Previous Eviction from Public Housing not done or incorrect	2
* Unit #4 - Not done	
* Unit #14 - Not done	
16. Annual Family Composition Review missing or incorrect	5
* Unit #1 - Not done	
* Unit #4 - Not done	
* Unit #7 - Not done	
* Unit #10 - Not done	
* Unit #14 - Not done	
17. Annual Review missing or incorrect	<u>0</u>
Total	<u><u>27</u></u>

Out of a possible 85, there were 27 exceptions from this test. This represents an exception rate of 31.76%.

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

ELK RAPIDS HOUSING COMMISSION  
SCHEDULE OF FINDINGS (CONTINUED)  
September 30, 2007  
=====

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

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item 07-3:** Year Ended September 30, 2007

*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 missing 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 chance to select income based or flat rent.

*Cause:* The staff member in charge of this program did not obtain documentation from the tenants documenting their choice as required annually.

*Population and Items Tested:* Out of the five tenant files tested, none of the five had the documentation. This represents an exception rate of 100%.

*Auditors Recommendation:* It is recommended that the Housing Commission document the tenant's annual written choice of flat rent or income based rent.

Low Rent Public Housing Program - CFDA No. 14.850a

**Finding Item 07-4:** Year Ended September 30, 2007

*Condition and Criteria:* During testing of the tenant files, it was discovered that documentation of the annual review of family composition was missing in the tenant files.

*Effect:* Ineligible tenants may be in the program or tenants may have been charged the wrong rents.

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

*Population and Items Tested:* Out of the five tenant files tested out of a population of 20, none of the five had the documentation. This represents an exception rate of 100%.

*Auditors Recommendation:* It is recommended that the Housing Commission document family composition for all tenants. The documentation of family composition must be done annually.

ELK RAPIDS HOUSING COMMISSION  
**ADJUSTING JOURNAL ENTRIES**  
 Year Ended September 30, 2007  
 =====

Electronic  
 Submission  
Line #

Account Name

Debit

Credit

(1)

114	Cash-tenant security deposit	\$ 5,017	
135	Investments-restricted		\$ 5,017