

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 type="checkbox"/> Other | | Local Unit Name | County |
| Fiscal Year End | Opinion Date | Date Audit Report Submitted to State | |

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 Check each applicable box below. (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 type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature | | Printed Name | | License Number |

BAY CITY HOUSING COMMISSION

Financial Statements

September 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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BAY CITY HOUSING COMMISSION
MANAGEMENT DISCUSSION & ANALYSIS

Bay City Housing Commission fiscal audit for the year ending September 30, 2007

The Government Accounting Standards Board (GASB) Statement #34 became applicable to the Bay City Housing Commission with its fiscal year beginning October 1, 2003. The purpose of this Statement is to provide more understandable and useful financial reports to a wider range of users than did the previous model of reporting. The Statement applies to the audited financial statements of all state and local governmental entities, including Public Housing Agencies (PHA) such as the Bay City Housing Commission.

A key requirement of GASB 34 is the *Management Discussion and Analysis* (MD&A).

The MD&A is intended to provide the users of the financial statements with an objective, easily readable analysis of the PHA's financial activities based on currently known facts, decisions or conditions, with a discussion of the positive and negative aspects of comparisons with the prior year. The analysis responds to Paragraph 11, subparagraphs (a) through (h) of GASB 34, and is presented herein.

- (a) ***"A brief discussion of the basic financial statements, including the relationship of the statements to each other, and the significant differences in the information they provide."***

The Bay City Housing Commission utilizes the Enterprise model of reporting under GAAP (Generally Accepted Accounting Principals), aggregating its major programs into combined financial statements. Major programs are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Combined financial statements are presented first, with detailed combining program data (financial data schedule) presented in the Supplemental Data section of the audit. The Bay City Housing Commission's major programs are its Conventional Low-Rent Public Housing, the Public Housing Capital Fund, and the Section 8 New Construction programs.

Combined Balance Sheet - details the current (cash and cash-equivalent) and non-current (fixed) assets as compared to current liabilities (payables) and equity (contributed capital and retained earnings) as of the year-end (9/30/2007), or the total "worth" of the enterprise.

Combined Statement of Revenues/Expenses - the "income statement", details the revenues received through operations, grants, interest or other sources during the year, less expenses for wages, benefits, utilities, maintenance and depreciation. The difference between the two is the net profit (or loss) for the year.

Combined Statement of Cash Flows - details the flow and uses of cash from operations and capital/financing activities and adjusts the year's beginning cash balance by the net cash flow to arrive at the end of year balance, which is reported on the Combined Balance Sheet. The statement further reconciles the year-end operating income (loss) to the net cash provided by operating activities.

- (b) ***"Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial positions and results of operations required in (c), below, including these elements:***

Management Discussion and Analysis, continued

- *Total assets, distinguishing between capital and other assets,*
- *Total liabilities, distinguishing between long-term liabilities and other liabilities,*
- *Total net assets, distinguishing among amounts invested in capital assets net of related debt, restricted amounts and unrestricted amounts,*
- *Program revenue, by major source,*
- *General revenue by major source,*
- *Total revenues,*
- *Program expenses, at a minimum by functions,*
- *Total expenses,*
- *Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers,*
- *Contributions,*
- *Special and extraordinary items,*
- *Transfers,*
- *Changes in net assets,*
- *Ending net assets*

TABLE 1

COMPARATIVE ANALYSIS OF ASSETS, LIABILITIES & EQUITY

| ASSETS | <u>09/30/2007</u> | <u>09/30/2006</u> | <u>% +(-)</u> |
|--|----------------------|----------------------|---------------|
| Cash & cash equivalents | \$ 4,663,973 | \$ 870,082 | 436% |
| Receivables - net of allowances | \$ 13,530 | \$ 22,197 | (39%) |
| Due from other funds | \$ 8,508 | \$ 8,270 | 3% |
| Inventory - net of allowances | \$ 79,917 | \$ 136,801 | (42%) |
| Tenant Security Deposits | \$ 148,368 | \$ 145,965 | 2% |
| Deferred charges and other assets | \$ 100,420 | \$ 83,491 | 17% |
| TOTAL CURRENT ASSETS | \$ 5,014,716 | \$ 1,266,806 | 296% |
| Fixed Assets - net of accumulated depreciation | \$ 11,529,050 | \$ 11,871,489 | (3%) |
| TOTAL ASSETS | \$ 16,543,766 | \$ 13,138,295 | 26% |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | |
| Accounts Payable | \$ 74,136 | \$ 74,843 | (1%) |
| Due to other funds | \$ 8,508 | \$ 8,270 | 3% |
| Intergovernmental Payables | \$ 76,928 | \$ 67,410 | 14% |
| Accrued expenses/expenditures | \$ 8,958 | \$ 11,578 | (23%) |
| Accrued Wages/Payroll Taxes | \$ 32,042 | \$ 35,852 | (11%) |
| Current Portion of Long Term Debt | \$ 106,566 | \$ - | - |
| Tenant Security Deposits | \$ 148,369 | \$ 145,965 | 2% |
| Deferred Credits and other liabilities | \$ 3,702 | \$ 3,079 | 20% |
| TOTAL CURRENT LIABILITIES | \$ 459,209 | \$ 346,997 | 14% |
| Long-term Debt net of current portion | \$ 3,131,480 | \$ - | - |
| TOTAL LIABILITIES | \$ 3,590,689 | \$ 346,997 | 935% |
| Invested in Capital Assets, Net of Related Debt | \$ 11,529,050 | \$ 11,871,489 | (3%) |
| Unrestricted Net Assets | \$ 1,424,027 | \$ 919,809 | 55% |
| TOTAL EQUITY | \$ 12,953,077 | \$ 12,791,298 | 1% |
| TOTAL LIABILITIES, EQUITY AND OTHER CREDITS | \$ 16,543,766 | \$ 13,138,295 | 26% |

Management Discussion and Analysis, continued

TABLE 2
COMPARATIVE ANALYSIS OF REVENUE, EXPENSES & CHANGE IN ASSETS

| REVENUE | 09/30/2007 | 09/30/2006 | % +/- |
|--------------------------------------|----------------------|----------------------|---------------|
| Tenant Rental Revenue | \$ 1,696,026 | \$ 1,613,011 | 5% |
| HUD Operating Grants | \$ 1,927,772 | \$ 2,073,320 | (7%) |
| HUD Capital Grants | \$ 1,049,366 | \$ 71,188 | 1,374% |
| Intergovernmental | \$ - | \$ - | - |
| Investment Income – Unrestricted | \$ 66,890 | \$ 44,169 | 51% |
| Interest Income – Restricted | \$ 66,899 | \$ - | - |
| Other Income | \$ 323,576 | \$ 158,147 | 105% |
| TOTAL REVENUE | \$ 5,130,529 | \$ 3,959,835 | 30% |
| EXPENSES | | | |
| Administration | \$ 948,077 | \$ 604,723 | 57% |
| Tenant Services | \$ 111,658 | \$ 256,375 | (56%) |
| Utilities | \$ 564,705 | \$ 601,801 | (6%) |
| Maintenance | \$ 1,429,187 | \$ 1,513,322 | (6%) |
| Protective Services | \$ - | \$ 48 | (100%) |
| General Expenses | \$ 664,483 | \$ 603,029 | 14% |
| TOTAL OPERATING EXPENSES | \$ 3,718,110 | \$ 3,579,298 | 4% |
| Depreciation | \$ 1,214,256 | \$ 1,213,967 | <1% |
| Other Expenses | \$ 383 | \$ - | - |
| TOTAL EXPENSES | \$ 4,932,749 | \$ 4,793,265 | 3% |
| REVENUE OVER (UNDER) EXPENSES | \$ 197,780 | \$ (833,430) | - |
| BEGINNING EQUITY | \$ 12,791,298 | \$ 13,612,277 | (6%) |
| PRIOR PERIOD ADJUSTMENT | \$ (36,001) | \$ 12,451 | (389%) |
| ENDING EQUITY | \$ 12,953,077 | \$ 12,791,298 | 1% |

- (c) *"An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply state the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affect operating results for the year should be discussed."*

Assets/Liabilities (Balance sheet) refer to Table 1 under (b) above

The 436% increase in "Cash & Cash Equivalents" was primarily due to the closing of a debt-financed loan through HUD's Capital Fund Financing Program (CFFP), which resulted in approximately \$3.2 million in proceeds being received in the fiscal year, or almost 70% of total cash. Capital improvements being funded through this financing were commenced during the year, with the balance of projects on schedule for a Spring 2008 bid opening, contract award and construction start.

Management Discussion and Analysis, continued

"Receivables" decreased 39% from the prior year as the agency has moved to a HUD-mandated property-based asset management structure and a higher degree of accountability of site staff for receivables, especially Tenant Account Receivables, which make up the lion's share of this category. Also, under asset management, duplicative inventory has been eliminated as direct property-based usage data has been incorporated into operations, reflected in the 42% decrease of "Inventory". These factors are the significant reasons behind the 296% increase in "Total Current Assets" and the 26% increase in "Total Assets". As debt-financed capital work is completed and paid for, there will be a marked decrease in cash with an off-setting increase in fixed assets, which is expected to occur over the next 2 years.

On the Liabilities, Equity and Other Credits side of the ledger, the most significant changes that have occurred are in the categories that had no previous entry and, subsequently, no calculable percentage change. Specifically, those are the "Current Portion of Long Term Debt" and "Long Term Debt Net of Current Portion", reflecting the debt-financing newly initiated in the fiscal year. This fact alone is the major reason for the 935% increase in "Total Liabilities" and the 26% increase in "Total Liabilities, Equity and Other Credits".

Revenue/Expenses (Income Statement) refer to Table 2 under (b) above

"HUD Capital Grants" revenue increased by 1,374% as the temporary abeyance on capital expenditures was lifted with the closing of the debt financing noted above, and the resumption of planned capital improvement work. "Restricted Investment Income", while not calculable as a new entry, is significant in that it represents 50% of all investment income. It is restricted in that it is earnings directly from deposited debt-financed loan proceeds which must be used solely for the prosecution of approved capital improvements.

"Other Income", increasing by 105% over the previous year, reflects those revenues generated by fees changed to the property divisions by the Central Office under asset management, as well as other dividends received by the agency through its various insurance programs. Together with the items discussed above, "Total Revenue" increased by 30% over the prior year.

On the expense side, "Administration" increased by 57% as the result of staff re-alignment under the asset management restructuring, with corresponding dollar decreases in "Tenant Services" and "Maintenance" that amounted to 56% and 6% decreases, respectively. Even with these significant changes, overall "Total Operating Expenses" increased by only 4% and "Total Expenses" by only 3%, resulting in a positive cash flow for the year of \$197,780 and an improvement of 1% in "Ending Equity".

- (d) ***"An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future uses."***

Management Discussion and Analysis, continued

The Bay City Housing Commission does not have multiple funds. All programs as discussed herein are contained within one General Fund with subsidiary ledgers maintained for separate program activities (Low Rent, Capital Fund and Section 8 New Construction). With the beginning of fiscal year 2007 (October 1, 2006) the Commission converted to Project-Based Budgeting and Accounting, which has expanded these subsidiary ledgers on a cost center basis, one for each property and one for a central office cost center. However, as of the end of the fiscal year on 9/30/2007, HUD had yet to formally adopt a new financial data schedule (FDS) for the reporting of property-based financial information. A new draft FDS is being promulgated in the current fiscal year with an anticipated effective date sometime in 2008.

- (e) *"An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity."*

This analysis is not required under the Enterprise model where the primary function of the entity is a business-type activity.

- (f) *"A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services."*

CAPITAL ASSETS AT YEAR-END

| | 9/30/2007 | 9/30/2006 |
|--------------------------|-----------------|-----------------|
| Land | \$ 1,798,466 | \$ 1,798,466 |
| Buildings | \$ 11,224,223 | \$ 11,224,223 |
| Furniture and Equipment | \$ 2,692,484 | \$ 2,649,017 |
| Leasehold Improvements | \$ 15,637,707 | \$ 14,972,403 |
| Construction in Progress | \$ 253,826 | \$ 90,810 |
| Accumulated Depreciation | \$ (20,077,656) | \$ (18,863,400) |
| TOTALS | \$ 11,529,050 | \$ 11,871,489 |

At September 30, 2007 the Bay City Housing Commission's investment in capital assets, including land, buildings, and furniture and equipment, increased \$43,467, or 0.3% from the prior year. Leasehold improvements increased by 11% or \$665,304 while Construction in Progress increased by \$163,016, a 179% improvement from the prior year, reflective of the Housing Commission's completion of capital improvements to its facilities in the audited year in which debt financing arrangements were completed to complement the normal flow of capital improvements.

Capital Improvements made to the Public Housing inventory are accomplished through grant funding provided by HUD under the Capital Fund Program (CFP). The CFP and its predecessor programs have been separately authorized and funded by Congress since the early '90s, providing a stable, formula-derived annual allocation to PHA's specifically for these purposes. Capital Improvements made to the Section 8 New Construction inventory (Maplewood Manor) are self-funded by the Housing Commission through its Operating Income and Fund Balance.

Management Discussion and Analysis, continued

Debt has been issued for a number of these improvements in the audited year through the Capital Fund Financing Program (CFFP). See discussion following.

DEBT

In 2004 the Housing Commission began participation in a Michigan State Housing Development Authority (MSHDA) sponsored debt program for capital improvements in its Public Housing inventory. Originally conceived as a state bond issue to raise funds to allow the Housing Commission to accelerate planned improvements over what could be accomplished with the current stream of funding, and to be repaid through the use of future annual CFP allocations, the program evolved into a more conventional loan program. A pool of 8 Housing Commissions, working in conjunction with MSHDA, issued Requests for Proposal (RFP) and selected qualified firms for the financial and legal services relative to effectuating loans for this purpose. The Bay City Housing Commission's loan application for approximately \$3.2 million was developed and successfully submitted to HUD. Loan closing took place on March 29, 2007, and will be repaid over the term of 20 years solely through future Capital Fund Program annual allocations to the Housing Commission. No other asset of the Housing Commission has been put at risk through this debt.

- (g) *"A discussion by governments that use the modified approach to report some or all of their infrastructure assets..."*

Not applicable to business-type activities under the Enterprise model.

- (h) *"A description of 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)."*

PUBLIC HOUSING

Operating Fund: The Bay City Housing Commission is heavily dependent on HUD for the funding of operational expenses not covered by operational revenue which is primarily tenant rent and which is limited by federal statute to no more than 30% of a family's adjusted household income. In 2007 the HUD Operating Fund Grant represented 42% of total Public Housing revenue. This significant portion of revenue is much more affected by federal appropriations than by local economic conditions.

Historically, the Housing Commission's fiscal year, coincidental with the Federal fiscal year (FFY), resulted in funding appropriated in any given Federal fiscal year not actually being available to us until our following fiscal year. In other words, appropriations approved for the Federal fiscal year beginning October 1, 2004 were not actually available for our use until October 1, 2005 due to the lengthy process housing agencies are required to go through to calculate their eligibility for subsidy, have HUD review it and determine pro-ration amounts and actually approve the funds. This was the same for all housing agencies and only varied by their own individual agency's fiscal year. HUD, in effect, was funding all agencies on a local fiscal year basis after federal appropriations had been determined.

Management Discussion and Analysis, continued

Beginning with FFY 2006, HUD modified this funding schedule and is now providing operating funds to all housing agencies on a calendar year basis (Jan - Dec), which means the Housing Commission receives 3 months of funding (Oct/Nov/Dec) from one federal fiscal year and 9 months from the next (Jan-Sep). Complicating this scenario is the issue of the timing of HUD's determination of total need versus Congressionally approved appropriations, which was not completed by HUD until September 2007. The final 2007 proration was 83.4% of eligibility.

HUD also introduced a new Operating Fund formula in 2007 based upon the results of a Public Housing Operating Cost Study completed by Harvard University. Designed to replace the 30+ year old Performance Funding System (PFS) formula, the new formula is an integral part of HUD's mandate for certain public housing agencies (those with more than 250 units) to convert to an Asset Management style of operations emulating private-sector property management. Agencies have five (5) years to complete the conversion, with those agencies scheduled to receive less funding under the new formula having that reduction phased in over the 5-year conversion period. The Bay City Housing Commission falls into that category, being scheduled to receive approximately \$174,000 less in funding under the new formula vs. the old, a 13% decrease. The 2007 phase-in reduction was calculated at approximately \$41,000.

As an incentive for agencies to convert to Asset Management earlier than required, HUD provided a "stop-loss" safe haven. Upon demonstration of successful conversion to Asset Management requirements, agencies would have their subsidy reduction frozen at the phase-in period for the year of compliance. In the first year (2007) the stop-loss percentage is prescribed at 5%, with an original compliance documentation deadline date of April 15, 2007 being postponed until October 2007. The Commission has taken necessary steps to minimize its loss by converting to Asset Management as of October 1, 2006 and submitted its compliance documentation by the October deadline. No confirmatory review has yet to be scheduled by HUD.

The funding picture for 2008 is again clouded by proration. As in 2006 and 2007, federal appropriations do not appear to be sufficient to meet the formula-determined eligibility of housing agencies nation-wide and, in addition to the formula reduction noted above, proration reductions have been estimated to be in the 80% range. Significant budgetary pressures continue to face the Commission in 2008 and all avenues of cost reduction and income enhancement are being pursued.

Capital Fund: Also funded through the federal budget process, the Capital Fund Program (CFP) and its predecessor programs have been, since their inception, historically stable programs. However, the CFP has also been experiencing pressures resulting from competing national priorities and received significant cuts in 2007 and 2008. This further justifies the Housing Commission's participation in the Capital Fund debt-financing program.

A loan of \$3.2 million dollars over a 20-year term was closed in March 2007.

Debt-service is approximately 1/3rd of the 2005 CFP allocation, the maximum amount approvable by HUD. As future CFP allocations by HUD are reduced due to appropriation shortfalls, that percentage may increase but the physical improvement work will have been completed instead of deferred due to funding reductions.

Management Discussion and Analysis, continued

SECTION 8 NEW CONSTRUCTION (Maplewood Manor)

Funding provided for this HUD Multifamily program is in the form of a Housing Assistance Payment Contract (HAP) that guarantees a certain 'contract rent', HUD paying the owner (the Commission) the difference between the income-based rents it receives from tenants and that contract rent. The initial HAP Contract with HUD for Maplewood Manor was for a period of 25 years with contract rents set high enough to cover both initial operations and debt service on the municipal bond that was issued to fund its construction. At the end of the initial HAP Contract in 2004 the Housing Commission applied for and received a 5-year renewal of the HAP Contract. Annually, the Housing Commission is eligible to apply for either a budget-based rent increase or an increase based on a HUD-published Operating Cost Adjustment Factor (OCAF).

The HAP Contract is designed to allow owners of Multifamily properties to fund their own Replacement Reserves for needed improvements and betterments required over the life of the facility and, such being the case, these developments are not otherwise eligible to participate in the Capital Fund Program available to Public Housing properties. The Housing Commission has been implementing planned improvements utilizing this source of funding and will continue to do so based upon its 20-year Capital Needs Assessment.

CONTACTING THE HOUSING COMMISSION'S MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Housing Commission's finances and to demonstrate the Housing Commission's accountability for the funding it receives and the assets it is entrusted to operate, maintain and improve. If you have questions about this report or wish to request additional financial information, contact:

Douglas A. Rise, Executive Director
Bay City Housing Commission
1200 N. Madison Avenue
Bay City, Michigan 48708

telephone number (989) 892-9581.

John C. DiPiero, P.C.

Certified Public Accountant

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

Bay City Housing Commission
1200 N Madison
Bay City, Michigan 48708

Independent Auditor's Report

I have audited the financial statements of the Bay City 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 Bay City 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 March 31, 2008, on my consideration of the Bay City 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

March 31, 2008

BAY CITY HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

ASSETS

C-3017

CURRENT ASSETS

| | | |
|------------------------------------|----------------|--------------|
| Cash & Cash Equivalents | \$ 4,812,341 | |
| Accounts Receivable (Net) | 13,530 | |
| Prepaid Expenses & Inventory (Net) | <u>180,337</u> | |
| Total Current Assets | | \$ 5,006,208 |

NON CURRENT ASSETS

| | | |
|--------------------------------------|---------------------|-------------------|
| Land | \$ 1,798,466 | |
| Buildings | 11,224,223 | |
| Furniture, Equipment- Dwellings | 2,150,611 | |
| Furniture, Equipment- Administrative | 541,873 | |
| Leasehold Improvements | 15,891,533 | |
| Accumulated Depreciation | <u>(20,077,656)</u> | |
| Total Non Current Assets | | <u>11,529,050</u> |

TOTAL ASSETS

\$ 16,535,258

BAY CITY HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

LIABILITIES

C-3017

CURRENT LIABILITIES

| | | |
|------------------------------------|----------------|-------------------|
| Accounts Payable | \$ 74,136 | |
| Accrued Liabilities | 32,042 | |
| Accounts Payable- Other Government | 76,928 | |
| Compensated Absences | 8,958 | |
| Tenants Security Deposit | 148,369 | |
| Deferred Revenue | 3,702 | |
| Current Portion Long Term Debt | <u>106,566</u> | |
| <u>Total Liabilities</u> | | \$ 450,701 |

NONCURRENT LIABILITIES

| | | |
|---------------------------------------|----------------|---------------------|
| Long Term Debt- Capital Projects Loan | \$ 3,238,046 | |
| Current Portion, above | <u>106,566</u> | |
| | | <u>3,131,480</u> |
| <u>Total Liabilities</u> | | \$ 3,582,181 |

Net Assets

| | | |
|---|------------------|--------------------------|
| Investment in Fixed Assets net of Related Debt | \$ 11,529,050 | |
| Unrestricted Net Assets | <u>1,424,027</u> | |
| <u>Total Net Assets</u> | | <u>12,953,077</u> |

Total Liabilities & Net Assets **\$ 16,535,258**

The Accompanying Footnotes are an Integral Part of the Financial Statements.

BAY CITY HOUSING COMMISSION
 Combined Statement of Revenues, Expenses, and Changes in Net Assets
 For the year ended September 30, 2007

OPERATING REVENUE

| | | |
|--------------------------------|----------------|--------------|
| Tenant Rental Revenue | \$ 1,696,026 | |
| Tenant Revenue-Other | 52,711 | |
| HUD Grants | 2,171,581 | |
| Interest Income-Unrestricted | 133,789 | |
| -Restricted | 2,299 | |
| Other Income | <u>267,328</u> | |
| <u>Total Operating Revenue</u> | | \$ 4,323,734 |

OPERATING EXPENSES

| | | |
|---------------------------------|------------------|------------------|
| Administrative | \$ 948,077 | |
| Tenant Services | 111,658 | |
| Utility Expenses | 564,705 | |
| Ordinary Maintenance | 1,429,187 | |
| General Expenses | 664,483 | |
| Depreciation Expenses | <u>1,214,256</u> | |
| <u>Total Operating Expenses</u> | | <u>4,932,366</u> |
| <u>Operating Income (Loss)</u> | | \$ (608,632) |

NONOPERATING REVENUE (EXPENSES)

| | | |
|---|--------------|--------------|
| Casualty Losses | \$ (383) | |
| Gain on Sale of Assets | <u>1,238</u> | <u>855</u> |
| <u>Income (Loss) before Contributions</u> | | \$ (607,777) |

CAPITAL CONTRIBUTIONS

| | | |
|------------------------------|-----------------|----------------------|
| <u>Changes in Net Assets</u> | | <u>805,557</u> |
| <u>Changes in Net Assets</u> | | \$ 197,780 |
| Total Net Assets- Beginning | \$ 12,791,298 | |
| Prior year Audit Adjustments | <u>(36,001)</u> | <u>12,755,297</u> |
| Total Net Assets- Ending | | \$ <u>12,953,077</u> |

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION
 Combined Statement of Cash Flows
 For the Year Ended September 30, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|----|----------------|
| Receipts from Customers | \$ | 1,691,738 |
| Payments to Suppliers | | (2,352,252) |
| Payments to Employees | | (1,184,647) |
| HUD Grants | | 2,171,581 |
| Other Receipts (Payments) | | <u>404,654</u> |
| Net Cash Provided (Used) by Operating Activities | \$ | <u>731,074</u> |

CASH FLOWS FROM CAPITAL AND
 RELATED FINANCING ACTIVITIES

| | | |
|-----------------------------|----|------------------|
| Capital Loan Proceeds | \$ | 3,131,480 |
| Capital Contributions | | 805,557 |
| Purchases of Capital Assets | | <u>(871,817)</u> |

| | | |
|---|----|------------------|
| Net Cash Provided (Used) from Capital and Financing Activities | \$ | <u>3,065,220</u> |
|---|----|------------------|

| | | |
|---|----|-----------|
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ | 3,796,294 |
|---|----|-----------|

| | | |
|---------------------------------|--|------------------|
| Cash Balance- Beginning of Year | | <u>1,016,047</u> |
|---------------------------------|--|------------------|

| | | |
|---------------------------|----|------------------|
| Cash Balance- End of Year | \$ | <u>4,812,341</u> |
|---------------------------|----|------------------|

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

| | | |
|---|----|----------------|
| Net Profit or (Loss) | \$ | (608,632) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | | 1,214,256 |
| Changes in Assets (Increase) Decrease: | | |
| Receivables (Gross) | | 8,667 |
| Prepaid Expenses | | 3,954 |
| Changes in Liabilities Increase (Decrease): | | |
| Accounts Payable | | (707) |
| Accrued Liabilities | | (3,810) |
| Accounts Payable-Other Governments | | 10,373 |
| Accrued Compensated Absences | | (2,620) |
| Security Deposits | | 2,404 |
| Deferred Revenue | | 623 |
| Current Portion of Long Term Debt | | <u>106,566</u> |
| Net Cash Provided by Operating Activities | \$ | <u>731,074</u> |

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION
Notes to Financial Statements
September 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Bay City Housing Commission, Bay City, Michigan, (Commission) was created by ordinance of the city of Bay City. 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 24-2,3,4,5, 6, & 7 Low rent program | 562 units |
| MI 28-8023007 New Construction | 161 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. Based on the above criteria, there are no component units.

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/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the individual funds statements in the Financial Data Statements, however, are eliminated on the combined Statement of Net Assets.

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 | 30 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- continue

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

| | |
|--------------------------------|---------------------|
| General Fund Checking Accounts | \$ 722,521 |
| Petty Cash | 300 |
| Savings Accounts | 90,000 |
| Cash Equivalents, below | <u>3,999,520</u> |
| Financial Statement Total | <u>\$ 4,812,341</u> |

Investments:

| | |
|--------------------------------------|--------------------|
| Savings Accounts | 3,999,520 |
| Cash Equivalents, reclassified above | <u>(3,999,520)</u> |
| Financial Statement Total | <u>\$ 0</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.

| | Categories | | | Carrying Amount | Market Value |
|----------------|---------------------|-----------|-----------|---------------------|---------------------|
| | 1 | 2 | 3 | | |
| Cash: | | | | | |
| Checking A/C's | \$ 722,521 | \$ | \$ | \$ 722,521 | \$ 722,521 |
| Petty Cash | 300 | | | 300 | 300 |
| Money market | 3,999,520 | | | 3,999,520 | 3,999,520 |
| C/D's | <u>90,000</u> | | | <u>90,000</u> | <u>90,000</u> |
| Total Cash | <u>\$ 4,812,341</u> | <u>\$</u> | <u>\$</u> | <u>\$ 4,812,341</u> | <u>\$ 4,812,341</u> |

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable

Tenants accounts receivable consists of the following:

| | |
|---------------------------------|----------------|
| Accounts Receivable- Tenants | \$ 14,191 |
| Allowance for Doubtful Accounts | <u>(9,199)</u> |
| Net Accounts Receivable-tenants | \$ 4,992 |

Accounts Receivable- Other

| | |
|---------------------------|------------------|
| Accounts Receivable- HUD | <u>8,538</u> |
| Financial Statement Total | <u>\$ 13,530</u> |

Notes to Financial Statements- continue

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

| | |
|----------------------------|-------------------|
| Prepaid Insurance | \$ 100,420 |
| Inventories | 82,305 |
| Allowance for Obsolescence | <u>(2,388)</u> |
| Financial Statement Total | <u>\$ 180,337</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 | \$ 1,798,466 | \$ | \$ | \$ 1,798,466 |
| Buildings | 11,224,223 | | | 11,224,223 |
| Furniture & Equipment-Dwellings | 2,107,114 | 43,497 | | 2,150,611 |
| Furniture & Equipment-Admin | 541,873 | | | 541,873 |
| Leasehold Improvements | <u>15,063,213</u> | <u>828,320</u> | <u> </u> | <u>15,891,533</u> |
| | \$30,734,889 | \$ 871,817 | \$ | \$31,606,706 |
| Less Accumulated Depreciation | <u>18,863,400</u> | <u>1,214,256</u> | <u> </u> | <u>20,077,656</u> |
| | <u>\$11,871,489</u> | <u>\$ (342,439)</u> | <u>\$ </u> | <u>\$11,529,050</u> |

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

| | |
|--------------------------|------------------|
| Accrued Wages & Benefits | \$ <u>32,042</u> |
|--------------------------|------------------|

Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

| | |
|----------------------------|------------------|
| Accounts Payable- Bay City | \$ <u>76,928</u> |
|----------------------------|------------------|

Note 8: Retirement.

The Commission is enrolled in a retirement and a deferred compensation plan, under code section 457 and section 401 of the Internal Revenue Code. The plan provides for both employee and employer contributions, and offers several alternative plans to participate in; the eligibility rules and plan assets are available under a separate report provided by the Retirement Trust. In addition to the above, the Commission has a defined benefit plan which has been frozen to current employee participation only, and not available to future employee participation.

Notes to Financial Statements, continued

The statistical data for that plan is as follows:

GASB 25 and 27 Information

The following information has been prepared to provide the information necessary to comply with GASB Statements N. 25 & 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1997.

GASB 25 Information (as of 12/31/2006)

Actuarial Accrued Liability

| | |
|---|------------------|
| Retirees and beneficiaries currently receiving benefits | \$ 2,979,506 |
| Terminated employees (vested former members) not yet receiving benefits | 0 |
| Non-vested terminated employees (pending refunds of accumulated member contributions) | 0 |
| Current employees- | |
| Accumulated employee contributions including allocated investment income | 119,762 |
| Employer financed | <u>2,550,049</u> |
| Total Actuarial Accrued Liability | \$ 5,649,317 |
| Net assets available for benefits at actuarial value | <u>4,424,373</u> |
| (Market Value is \$ 3,922,068) | |
| Underfunded (Overfunded) actuarial accrued liability | \$ 1,224,944 |

GASB 27 Information (as of 12/31/2006)

| | |
|---|-----------------|
| Fiscal year beginning | October 1, 2008 |
| Annual Required Contribution (ARC) | \$ 192,624 |
| Amortization Factor Used - Underfunded Liabilities (24 years) | 0.069773 |
| Amortization Factor Used - Underfunded Liabilities (30 years) | 0.085453 |

Note 9: Long Term Debt

The Commission entered into a Capital Fund Financing Program (CFFP), involving the U. S. Department of Housing and Urban Development (HUD), and Fannie Mae. The loan agreement is for \$ 3,264,000, payable serially 20 years at a rate of 4.45%. The loan will be serviced using a portion of the Capital Fund Project as approved by HUD. The following represents the Principal and Interest obligations over the next five years:

Notes to Financial Statements, continued

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|------------------|-----------------|--------------|
| June 30, 2008 | \$ 106,566 | \$ 142,110 | \$ 248,676 |
| June 30, 2009 | 110,796 | 137,880 | 248,676 |
| June 30, 2010 | 116,244 | 132,432 | 248,676 |
| June 30, 2011 | 121,524 | 127,152 | 248,676 |
| June 30, 2012 | 127,050 | 121,626 | 248,676 |
| Thereafter | 2,655,866 | 1,322,950 | 3,978,816 |

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

Note 10: 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 | \$ 61,555,394 |
| General Liability | 2,000,000 |
| Dishonesty Bond | 1,000,000 |
| Worker's Compensation, auto, and other riders: Coverage's required by the State of Michigan | |

Note 11: Reclassifications.

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

Note 12: 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 would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

BAY CITY 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-3017 Operating Subsidies | \$ <u>1,112,746</u> |
| * <u>CFDA 14.182 Housing Assistance Programs</u> | |
| C-3017 Section 8 New Construction | \$ <u>815,026</u> |
| * <u>CFDA 14.872 Capital Projects Grants</u> | |
| C-3017 Capital Projects Funds | \$ <u>1,049,366</u> |
| | \$ <u>2,977,138</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

Bay City Housing Commission

30-Sep-07

MI024

| Combining Balance Sheet | | Low Rent 14.850 | Section 8 New Construction | Capital Projects Funds 14.872 | TOTAL |
|-------------------------|---|-------------------|----------------------------|-------------------------------|-------------------|
| Line Item # | | | | | |
| | ASSETS: | | | | |
| | CURRENT ASSETS: | | | | |
| | Cash: | | | | |
| 111 | Cash - unrestricted | 4,081,623 | 455,861 | - | 4,537,484 |
| 112 | Cash - restricted - modernization and developmen | 126,489 | | | 126,489 |
| 113 | Cash - other restricted | | | | - |
| 114 | Cash - tenant security deposits | 116,422 | 31,946 | | 148,368 |
| 100 | Total cash | 4,324,534 | 487,807 | - | 4,812,341 |
| | Accounts and notes receivables: | | | | |
| 121 | Accounts receivable - PHA projects | - | | | - |
| 122 | Accounts receivable - HUD other projects | 30 | - | 8,508 | 8,538 |
| 124 | Accounts receivable - other government | | | | - |
| 125 | Accounts receivable - miscellaneous | - | - | | - |
| 126 | Accounts receivable- tenants - dwelling rents | 12,476 | 1,715 | | 14,191 |
| 126.1 | Allowance for doubtful accounts - dwelling rents | (8,132) | (1,067) | | (9,199) |
| 126.2 | Allowance for doubtful accounts - other | | | | - |
| 127 | Notes and mortgages receivable- curren | | | | - |
| 128 | Fraud recovery | | | | - |
| 128.1 | Allowance for doubtful accounts - fraud | | | | - |
| 129 | Accrued interest receivable | | | | - |
| 120 | Total receivables, net of allowances for doubtful accounts | 4,374 | 648 | 8,508 | 13,530 |
| | Current investments | | | | - |
| 131 | Investments - unrestricted | - | | | - |
| 132 | Investments - restricted | | | | - |
| 142 | Prepaid expenses and other assets | 94,429 | 5,991 | | 100,420 |
| 143 | Inventories | 70,786 | 11,519 | | 82,305 |
| 143.1 | Allowance for obsolete inventories | (2,124) | (264) | | (2,388) |
| 144 | Interprogram - due from | 8,508 | - | - | 8,508 |
| 146 | Amounts to be provided | | | | - |
| 150 | TOTAL CURRENT ASSETS | 4,500,507 | 505,701 | 8,508 | 5,014,716 |
| | NONCURRENT ASSETS: | | | | |
| | Fixed assets: | | | | |
| 161 | Land | 1,539,701 | 258,765 | | 1,798,466 |
| 162 | Buildings | 7,533,845 | 3,690,378 | | 11,224,223 |
| 163 | Furniture, equipment & machinery - dwellings | 1,458,817 | 653,636 | 38,158 | 2,150,611 |
| 164 | Furniture, equipment & machinery - administrator | 417,501 | 124,372 | - | 541,873 |
| 165 | Leasehold improvements | 12,375,096 | 3,262,611 | 253,826 | 15,891,533 |
| 166 | Accumulated depreciation | (15,124,850) | (4,952,806) | - | (20,077,656) |
| 160 | Total fixed assets, net of accumulated depreciator | 8,200,110 | 3,036,956 | 291,984 | 11,529,050 |
| 171 | Notes and mortgages receivable - non-curren | | | | - |
| 172 | Notes and mortgages receivable-non-current-past due | | | | - |
| 174 | Other assets | | | | - |
| 175 | Undistributed debits | | | | - |
| 176 | Investment in joint ventures | | | | - |
| 180 | TOTAL NONCURRENT ASSETS | 8,200,110 | 3,036,956 | 291,984 | 11,529,050 |
| 190 | TOTAL ASSETS | 12,700,617 | 3,542,657 | 300,492 | 16,543,766 |

| | | | | | |
|-------|--|-------------------|------------------|----------------|-------------------|
| | LIABILITIES AND EQUITY: | | | | |
| | LIABILITIES: | | | | |
| | CURRENT LIABILITIES | | | | |
| 311 | Bank overdraft | | | | - |
| 312 | Accounts payable ≤ 90 days | 49,888 | 24,248 | | 74,136 |
| 313 | Accounts payable > 90 days past due | | - | | - |
| 321 | Accrued wage/payroll taxes payable | 28,015 | 4,027 | | 32,042 |
| 322 | Accrued compensated absences | 7,837 | 1,121 | | 8,958 |
| 324 | Accrued contingency liability | | | | - |
| 325 | Accrued interest payable | | | | - |
| 331 | Accounts payable - HUD PHA programs | - | - | | - |
| 332 | Accounts Payable - PHA Projects | | | | |
| 333 | Accounts payable - other government | 76,928 | - | - | 76,928 |
| 341 | Tenant security deposits | 116,423 | 31,946 | | 148,369 |
| 342 | Deferred revenues | 3,150 | 552 | | 3,702 |
| 343 | Current portion of Long-Term debt - capital projects | 106,566 | | | 106,566 |
| 344 | Current portion of Long-Term debt - operating borrowings | | | | - |
| 345 | Other current liabilities | - | | | - |
| 346 | Accrued liabilities - other | - | | | - |
| 347 | Inter-program - due to | - | - | 8,508 | 8,508 |
| 310 | TOTAL CURRENT LIABILITIES | 388,807 | 61,894 | 8,508 | 459,209 |
| | NONCURRENT LIABILITIES: | | | | |
| 351 | Long-term debt, net of current- capital projects | 3,131,480 | | | 3,131,480 |
| 352 | Long-term debt, net of current- operating borrowings | | | | - |
| 353 | Noncurrent liabilities- other | - | | | - |
| 354 | Accr. Comp. Absences- non current | - | | | - |
| 350 | TOTAL NONCURRENT LIABILITIES | 3,131,480 | - | - | 3,131,480 |
| 300 | TOTAL LIABILITIES | 3,520,287 | 61,894 | 8,508 | 3,590,689 |
| | 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 | Invested in Capital Assets, Net of Related Debt | 8,200,110 | 3,036,956 | 291,984 | 11,529,050 |
| | 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 | 980,220 | 443,807 | | 1,424,027 |
| 513 | TOTAL EQUITY | 9,180,330 | 3,480,763 | 291,984 | 12,953,077 |
| 600 | TOTAL LIABILITIES AND EQUITY | 12,700,617 | 3,542,657 | 300,492 | 16,543,766 |

Bay City Housing Commission

30-Sep-07

MI024

| Combining Income Statement | | Low Rent 14.850 | Section 8 New Construction | Capital Projects Funds 14.872 | TOTAL |
|----------------------------|---|------------------|----------------------------|-------------------------------|------------------|
| Line Item # | | | | - | |
| | REVENUE: | - | - | | |
| 703 | Net tenant rental revenue | 1,269,497 | 426,529 | | 1,696,026 |
| 704 | Tenant revenue - other | 44,710 | 8,001 | | 52,711 |
| 705 | Total tenant revenue | 1,314,207 | 434,530 | - | 1,748,737 |
| 706 | HUD PHA grants | 1,112,746 | 815,026 | 1,049,366 | 2,977,138 |
| 708 | Other government grants | | | | - |
| 711 | Investment income - unrestricted | 102,147 | 31,642 | - | 133,789 |
| 712 | Mortgage interest income | | | | - |
| 714 | Fraud recovery | | | | - |
| 715 | Other revenue | 193,579 | 73,749 | - | 267,328 |
| 716 | Gain or loss on the sale of fixed assets | 1,238 | | | 1,238 |
| 720 | Investment income - restrictec | 2,299 | | | 2,299 |
| 700 | TOTAL REVENUE | 2,726,216 | 1,354,947 | 1,049,366 | 5,130,529 |
| | EXPENSES: | | | | |
| | Administrative | | | | |
| 911 | Administrative salaries | 334,074 | 57,495 | 74,933 | 466,502 |
| 912 | Auditing fees | 4,167 | 893 | | 5,060 |
| 913 | Outside management fees | | 128,664 | | 128,664 |
| 914 | Compensated absences | (1,194) | (1,426) | | (2,620) |
| 915 | Employee benefit contributions- administrative | 167,306 | 33,969 | - | 201,275 |
| 916 | Other operating- administrative | 139,792 | 9,404 | - | 149,196 |
| | Tenant services | | | | |
| 921 | Tenant services - salaries | 4,466 | - | | 4,466 |
| 922 | Relocation costs | - | | | - |
| 923 | Employee benefit contributions- tenant services | - | | | - |
| 924 | Tenant services - other | - | 33,897 | 73,295 | 107,192 |
| | Utilities | | | | |
| 931 | Water | 123,007 | 52,869 | | 175,876 |
| 932 | Electricity | 129,181 | 82,539 | | 211,720 |
| 933 | Gas | 108,721 | 60,587 | | 169,308 |
| 934 | Fuel | | | | - |
| 935 | Labor | | | | - |
| 937 | Employee benefit contributions- utilities | | | | - |
| 938 | Other utilities expense | 7,678 | 123 | | 7,801 |
| | Ordinary maintenance & operation | | | | |
| 941 | Ordinary maintenance and operations - labor | 594,210 | 119,469 | | 713,679 |
| 942 | Ordinary maintenance and operations - materials & other | 124,032 | 15,229 | - | 139,261 |
| 943 | Ordinary maintenance and operations - contract costs | 151,744 | 70,760 | 33,410 | 255,914 |
| 945 | Employee benefit contributions- ordinary maintenance | 274,272 | 46,061 | | 320,333 |
| | Protective services | | | | |

| | | | | | |
|------|---|------------------|------------------|-----------------|------------------|
| 952 | Protective services- other contract costs | - | | | - |
| 953 | Protective services - other | | | | - |
| 955 | Employee benefit contributions- protective services | | - | | - |
| | General expenses | | | | |
| 961 | Insurance premiums | 152,083 | 27,140 | | 179,223 |
| 962 | Other General Expenses | 164,503 | 190,201 | | 354,704 |
| 963 | Payments in lieu of taxes | 76,686 | | | 76,686 |
| 964 | Bad debt - tenant rents | 17,300 | 354 | | 17,654 |
| 965 | Bad debt- mortgages | | | | - |
| 966 | Bad debt - other | | | | - |
| 967 | Interest expense | 36,216 | | | 36,216 |
| 968 | Severance expense | - | | | - |
| 969 | TOTAL OPERATING EXPENSES | 2,608,244 | 928,228 | 181,638 | 3,718,110 |
| 970 | EXCESS OPERATING REVENUE OVER OPERATING EXPENSES | 117,972 | 426,719 | 867,728 | 1,412,419 |
| 971 | Extraordinary maintenance | - | | | - |
| 972 | Casualty losses - non-capitalized | - | 383 | | 383 |
| 973 | Housing assistance payments | | - | - | - |
| 974 | Depreciation expense | 925,452 | 288,804 | - | 1,214,256 |
| 975 | Fraud losses | | | | - |
| 976 | Capital outlays- governmental funds | - | | | - |
| 977 | Debt principal payment- governmental funds | | | | - |
| 978 | Dwelling units rent expense | | | | - |
| 900 | TOTAL EXPENSES | 3,533,696 | 1,217,415 | 181,638 | 4,932,749 |
| | OTHER FINANCING SOURCES (USES) | | | | |
| 1001 | Operating transfers in | 62,171 | | (62,171) | - |
| 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) | 62,171 | - | (62,171) | - |
| 1000 | EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (| (745,309) | 137,532 | 805,557 | 197,780 |

BAY CITY HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2007

The prior audit of the Bay City Housing Commission for the period ended September 30, 2006, did not contain any audit findings.

BAY CITY HOUSING COMMISSION
Report on Internal Control over Financial Reporting and on
Compliance and Other Matters based on an Audit of
Financial Statements Performed in Accordance with
Governmental Auditing Standards
September 30, 2007

I have audited the financial statements of the Bay City Housing Commission of Bay City, Michigan, as of and for the year ended September 30, 2007, and have issued my report thereon dated March 31, 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 Bay City 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.

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. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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 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 and questioned costs.

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
March 31, 2008

BAY CITY 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 Bay City Housing Commission of Bay City, 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, except as noted below, 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. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs:

Low Rent Public Housing:

| <u>Finding</u> | <u>Audit Number</u> | <u>Compliance Requirements</u> |
|---------------------------------|-------------------------|--------------------------------|
| Procurement Level Discrepancies | 07-1 | Procurement |

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. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

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 considered the deficiencies in internal control over compliance as described 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 consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Bay City Housing Commission's response to the findings identified in my audit are described in the accompanying schedule of findings and question costs. I did not audit Bay City Housing Commission's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of, management, Board of 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
March 31, 2008

BAY CITY 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 | |
| Section 8 New Construction | X | |
| Capital Projects Funds | X | |

Opinions:

Financial Statements-

Unqualified

| | | |
|---|-----------|-------------------|
| Material weakness(es) noted | _____ Yes | _____ <u>X</u> No |
| Control Deficiency (ies) noted | _____ Yes | _____ <u>X</u> No |
| Non Compliance material to financial statements noted | _____ Yes | _____ <u>X</u> No |

Report on compliance for Federal programs-

Qualified

| | | |
|---|--------------------|-------------------|
| Material weakness(es) noted | _____ Yes | _____ <u>X</u> No |
| Control Deficiency (ies) noted | _____ <u>X</u> Yes | _____ No |
| Non Compliance material to financial statements noted | _____ Yes | _____ <u>X</u> No |

Thresholds:

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

The Auditee did not qualify as a low risk auditee.

| Name of Federal Program | Major Program | Questioned Costs | Audit Finding Number |
|----------------------------|---------------|------------------|----------------------|
| Low Rent Public Housing | Yes | None | 7-1 |
| Section 8 New Construction | Yes | None | N/A |
| Capital Fund Project | Yes | None | N/A |

BAY CITY HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
September 30, 2007

The following finding of the Bay City Housing Commission, for the year ended September 30, 2007, was discussed with the Executive Director, Doug Rise, in an exit interview conducted February 4, 2008.

7-1: Procurement limits for small purchases beyond local levels.

Criteria-

The Commission must follow either the Federal, State or Local dollar thresholds, whichever is the most stringent.

Condition-

The Commission raised the small purchases level beyond the Cities level; HUD Handbook No. 7460.8 REV 2, Section 5.2 A, states in part, 'The threshold may not exceed the Federal small purchase threshold (currently, \$ 100,000), or any lower value set by the State or locality having jurisdiction over the PHA.'

Questioned Cost-

None

Effect-

A level beyond the above recommendations is in violation of the HUD rule.

Cause-

The Commission's research into the phrase 'having jurisdiction' suggested that the locality did not have such authority; therefore, raised the level beyond the local level.

Recommendation

The handbook appears to be clear that the threshold may not exceed the lower of Federal, State or Local levels, however, the question is whether the locality has jurisdiction over the Commission. The Commission sought a legal opinion concerning that question and believed it had the authority to raise the level above the local threshold; HUD has suggested the locality has jurisdiction in this matter.

I recommend the Commission and HUD resolve the question and abide by the ultimate decision.

Reply

Before adopting a revision to its Procurement Policy in reliance upon HUD's new Procurement Handbook (7460.8 REV 2 dated 2/2007), the Bay City Housing Commission had requested an analysis and opinion from its legal counsel regarding the underlying statement of the Federal Regulation at 24 CFR 85.36(b)(1) that references "...applicable State and local laws and regulations...". The opinion was sought specifically to research what those "applicable" State or local laws and regulations might be that would restrict the Housing Commission's ability to revise its policy as otherwise authorized by the CFR and Handbook.

The opinion, dated May 8, 2007, identified no otherwise applicable State or local law or ordinance more restrictive than the Federal Regulation contained in 24 CFR 85.36. The Board of the Housing Commission subsequently adopted a policy revision on May 27, 2007.

If HUD knows of any further restrictions that exist over the Bay City Housing Commission's authority to set policy in compliance with Federal regulations and can provide a specific citation, the Bay City Housing Commission will, of course, further consider the issue.