

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

COLDWATER HOUSING COMMISSION

Financial Statements

March 31, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

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

Board of Commissioners
Coldwater Housing Commission
60 S. Clay Street
Coldwater, Michigan 49036

Independent Auditor's Report

I have audited the Financial Statements of the Coldwater Housing Commission, Business Type Activities as of and for the year ended March 31, 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 Coldwater Housing Commission as of March 31, 2007, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 13, 2007 on my consideration of the Coldwater Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

July 13, 2007

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

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

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

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2007</u>	<u>Year 2006</u>
Operating Subsidies	\$ 64,105	\$ 62,892
Housing Choice Voucher Program	83,317	88,685
Capital Projects Funds	77,115	239,723

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2007</u>	<u>Year 2006</u>	<u>Net Change</u>
Cash & cash equivalents	\$ 151,655	\$ 153,477	(1,822)
Accounts Receivable	16,551	27,132	(10,581)
Investments (Restricted/Unrestricted)	96,530	96,530	
Prepaid Expenses	17,456	15,547	1,909
Fixed Assets, prior to Depreciation	3,955,531	3,912,535	42,996
Total Liabilities	64,342	86,135	(21,793)
Net Assets	1,627,386	1,748,114	(120,728)

	<u>Year 2007</u>	<u>Year 2006</u>	<u>Net Change</u>
Revenues:			
Tenant Revenues	296,925	278,185	18,740
HUD Grants	224,537	391,300	(166,763)
Other Revenue	13,010	19,282	(6,272)
Expenses:			
Administrative	165,334	183,704	(18,370)
Tenant Services	353	75	278
Utilities	87,067	82,612	4,455
Maintenance & Operations	124,924	130,012	(5,088)
General Expenses	35,474	33,971	1,503
Depreciation Expense	175,025	172,180	2,845
Housing Assistance Payments	70,497	85,309	(14,812)

The Commission's cash position decreased during the year, our accounts receivable decreased; our fixed assets before depreciation increased, total liabilities decreased, and Net Assets decreased. HUD grants decreased, Administration decreased, Housing Assistance Payments decreased, other expenses had unremarkable dollar changes.

A more detailed review of the above changes as follows:

Our cash position did not change appreciably, accounts receivable decreased due to accounts receivable-HUD decreasing \$ 8,437; fixed assets increased as a result of a improvements made to the building (see capital assets analysis below); net profit of \$ 173,084 before depreciation; liabilities decreased as a result of accounts payable decreasing \$ 21,661; Net Assets decreased by the amount of the loss.

HUD grants are a result of requisitioning eligible funds; our capital fund requisitions decreased \$ 162,608; we closed our 2005 Capital Fund Project, (CFP). HUD grants for the Low Rent Program are a result of calculations under the Performance Funding System; our subsidy remained unchanged; Housing Choice Vouchers decreased \$ 5,358, as a result of transferring the program on December 31, 2006 to the Michigan State Housing Development Authority.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2007</u>	<u>Year 2006</u>
Low Rent Public Housing	100	100
Housing Choice Vouchers	0	25

General Fund Budgetary Highlights

The Commission approved an operating budget on March 7, 2006 for the fiscal year ending March 31, 2007; we had no occasion to amend the original budget.

The following represents the significant changes from the original budget to the actual results:

	<u>Actual Results</u>	<u>Original Budget</u>	<u>Difference</u>
Total Income	\$ 534,472	\$ 556,000	\$ (21,528)
Administrative Expenses	165,334	222,270	(56,936)
Housing Assistance Payments	70,497	85,309	(14,812)
Net Income (Loss) before Depreciation	50,823	0	50,823

Our total income was down due to transferring the Voucher program at December 31, we lost one fourth of the voucher funding which was originally budgeted for. Administrative expenses also decreased since we terminated the section 8 coordinator; we actually eliminated the position earlier in the year; and housing assistance payments dropped as a result of losing the program for the last quarter. The decrease in revenue was offset by the decrease in related expenses which accounts for the net income before depreciation consistent with the budget results.

Entity Wide Capital Assets

The fixed assets increased \$ 42,996 prior to depreciation. The additions included site improvements and carpet replacement.

The Commission intends on using the 2006 Capital Fund Program (CFP) to upgrade our elevator system and complete the carpet replacement started in the 2005 CFP. The total 2006 CFP authorized is \$ 70,000.

Commission's Position

The Commission's proposed improvements include a canopy for the main entrance and energy saving updates; we anticipate the cost will be covered by our capital fund program. We are in the process of investigating the possibilities of converting several units to assisted living units; the ultimate decision will depend on State sponsored Medicare Waiver payments and other funding that is yet to be determined. However, we recognize the need for such units and will continue to research the possibilities.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Cathy Gordon, Executive Director
60 Clay Street
Coldwater, Michigan 49036

COLDWATER HOUSING COMMISSION
Statement of Net Assets
March 31, 2007

ASSETS

C-3058

CURRENT ASSETS

Cash	\$	151,655	
Accounts Receivable (net of allowance for doubtful accounts \$ 409)		191	
Accounts Receivable- Other		16,360	
Investments		96,530	
Prepaid Expenses & Inventories		<u>17,456</u>	
Total Current Assets	\$		282,192

NON CURRENT ASSETS

Land	\$	78,670	
Buildings		1,928,294	
Furniture, Equipment- Dwellings		3,806	
Furniture, Equipment- Administrative		82,673	
Construction in Progress		10,369	
Leasehold Improvements		1,852,030	
Accumulated Depreciation		<u>(2,545,995)</u>	
Total Non Current Assets			<u>1,409,536</u>

TOTAL ASSETS \$ 1,691,728

COLDWATER HOUSING COMMISSION
 Statements of Net Assets
 March 31, 2007

LIABILITIES

C-3058

CURRENT LIABILITIES

Accounts Payable	\$	7,630	
Accrued Payroll Taxes		4,457	
Accrued Compensated Absences		8,114	
Accounts Payable-Other Governments		15,904	
Tenants Security Deposit		14,755	
Accrued Liabilities- Other		715	
<u>Total Current Liabilities</u>			\$ 51,575

NON CURRENT LIABILITIES

Compensated Absences			12,767
<u>Total Liabilities</u>			\$ 64,342

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	1,409,536	
Unrestricted Net Assets		217,850	
<u>Total Net Assets</u>			1,627,386

<u>TOTAL LIABILITIES & NET ASSETS</u>			\$ <u>1,691,728</u>
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The Accompanying Notes are an Integral part of the Financial Statements

COLDWATER HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended March 31, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$ 277,000	
Tenant Revenue-Other	19,925	
HUD Grants	180,428	
Interest Income	4,820	
Other Income	<u>8,190</u>	
<u>Total Operating Revenue</u>		\$ 490,363

OPERATING EXPENSES

Administrative	\$ 165,334	
Tenant Services	353	
Utility Expenses	87,067	
Ordinary Maintenance	124,924	
General Expenses	<u>35,474</u>	
<u>Total Operating Expenses</u>		<u>413,152</u>
<u>Operating Income (Loss)</u>		\$ 77,211

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (70,497)	
Depreciation Expenses	<u>(175,025)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(245,522)</u>
<u>Income (Loss) before Contributions</u>		\$ (168,311)

CAPITAL CONTRIBUTIONS

		<u>44,109</u>
<u>Changes in Net Assets</u>		\$ (124,202)
Total Net Assets- Beginning	\$ 1,748,114	
Correction of prior year accruals	<u>3,474</u>	<u>1,751,588</u>
Total Net Assets- Ending		\$ <u>1,627,386</u>

The Accompanying Notes are an Integral part of the Financial Statements

COLDWATER HOUSING COMMISSION
 Combined Statement of Cash Flows
 For the Year Ended March 31, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	299,728
Payments to Suppliers		(353,017)
Payments to Employees		(142,773)
HUD Grants		224,537
Other Receipts (Payments)		<u>13,010</u>
Net Cash Provided (Used) by Operating Activities	\$	<u>41,485</u>

CASH FLOWS FROM CAPITAL AND
 RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$	<u>(43,307)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(1,822)
Balance- Beginning of Year		<u>153,477</u>
Balance- End of Year	\$	<u>151,655</u>

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

Net Profit or (Loss)	\$	(124,202)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		175,025
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		10,581
Prepaid Expenses		(1,909)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		(14,988)
Compensated Absences		(1,026)
Accounts Payable- Other Governments		(3,665)
Accrued Liabilities		(116)
Security Deposits		<u>1,785</u>
Net Cash Provided by Operating Activities	\$	<u>41,485</u>

The Accompanying Notes are an Integral part of the Financial Statements

COLDWATER HOUSING COMMISSION
Notes to Financial Statements
March 31, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Coldwater Housing Commission, Coldwater, Michigan, (Commission) was created by an ordinance of Coldwater, Michigan. The Commission signed an 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 56-001	Low rent program	100 units
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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, a component unit does exist which is reported.

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, 1998, 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, unless they conflict with the 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.

Notes to Financial Statements- continued

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.

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 Balance Sheet.

Fixed Assets

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

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

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

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

Use of estimates

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

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 72,216
Petty Cash	200
Saving Account	<u>79,239</u>
Financial Statement Total	<u>\$ 151,655</u>

Investments:

Certificates of Deposit	\$ 96,530
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Generally the Commission classifies cash and investments with the following risk assumptions:

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

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 72,216	\$	\$	\$ 72,216	\$ 72,216
Petty Cash	200			200	200
Savings Accounts	<u>79,239</u>			<u>79,239</u>	<u>79,239</u>
Total Cash	<u>\$ 151,655</u>	<u>\$</u>	<u>\$</u>	<u>\$ 151,655</u>	<u>\$ 151,655</u>
Investments:					
Certificates of Deposit	<u>\$ 96,530</u>	<u>\$</u>	<u>\$</u>	<u>\$ 96,530</u>	<u>\$ 96,530</u>

All investments are covered by either FDIC or bank collateralization commitment letters. 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.

Notes to Financial Statements- continued

Note 3: 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	\$ 76,598	\$ 2,072	\$	\$ 78,670
Buildings	1,688,553	239,741		1,928,294
Furniture & Equipment-Admin	84,055	2,424		86,479
Construction in Progress	42,295		31,926	10,369
Leasehold Improvements	<u>2,021,034</u>	<u> </u>	<u>169,004</u>	<u>1,852,030</u>
	\$ 3,912,535	\$ 244,237	\$ 200,930	\$ 3,955,531
Less Accumulated Depreciation	<u>2,370,970</u>	<u>175,025</u>	<u> </u>	<u>2,545,995</u>
	<u>\$ 1,541,565</u>	<u>\$ 69,212</u>	<u>\$ 200,930</u>	<u>\$ 1,409,536</u>

Note 4: Pension Plan

The Commission participates in the City of Coldwater retirement plan. All eligible employees participate in a deferred compensation plan. Statistical information and funding data are available in a separate audit report prepared by Coldwater.

Note 5: Reclassifications.

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

Note 6: 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).

Note 7: 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	\$ 8,683,653
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 8: Contingent Liability

The Commission was involved in a lawsuit with a terminated employee; the Commission elected to settle out of court to minimize the legal cost, however, believes the settlement in no way represents any liability on its part. The Commission carries liability insurance for such situations; the exposure to the Commission after the deductible is \$ 11,666. The amount has not been booked as the exact payment date is unknown at this time.

Note 9: Loss of Housing Choice Vouchers Program

The Commission requested, and was granted, permission to transfer the Section 8 Housing Choice Voucher Program (Program) to the Michigan State Housing Development Authority (MSHDA), effective December 31, 2006. The Program consisted of 25 vouchers; over the years the cost to administer the program exceeded the administrative fees which HUD provides, therefore, it was in the best interest of the Commission to transfer the program.

Coldwater Housing Commission

31-Mar-07

MI056

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Component Unit	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	71,071	-	-	65,829	136,900
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits	14,755				14,755
100	Total cash	85,826	-	-	65,829	151,655
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-		14,984		14,984
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous	1,376	-			1,376
126	Accounts receivable- tenants - dwelling rents	600				600
126.1	Allowance for doubtful accounts - dwelling rents	(409)				(409)
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery					-
128.1	Allowance for doubtful accounts - fraud					-
129	Accrued interest receivable					-
120	Total receivables, net of allowances for doubtful accounts	1,567	-	14,984	-	16,551
	Current investments					-
131	Investments - unrestricted	96,530				96,530
132	Investments - restricted					-
142	Prepaid expenses and other assets	14,056				14,056
143	Inventories	3,400				3,400
143.1	Allowance for obsolete inventories					-
144	Interprogram - due from	24,972	-	-		24,972
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	226,351	-	14,984	65,829	307,164
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	76,598		2,072		78,670
162	Buildings	1,857,558		70,736		1,928,294
163	Furniture, equipment & machinery - dwellings	269		3,537		3,806
164	Furniture, equipment & machinery - administration	80,403	995	964		82,362
165	Leasehold improvements	1,852,030		-		1,852,030
166	Accumulated depreciation	(2,540,773)	(995)	(4,227)		(2,545,995)
167	Construction in Progress			10,369		10,369
160	Total fixed assets, net of accumulated depreciation	1,326,085	-	83,451	-	1,409,536
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	1,326,085	-	83,451	-	1,409,536
190	TOTAL ASSETS	1,552,436	-	98,435	65,829	1,716,700

LIABILITIES AND EQUITY					
LIABILITIES:					
CURRENT LIABILITIES					
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	7,630		-	7,630
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	4,457			4,457
322	Accrued compensated absences	8,114			8,114
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				-
333	Accounts payable - other government	15,904	-	-	15,904
341	Tenant security deposits	14,755			14,755
342	Deferred revenues	-			-
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities				-
346	Accrued liabilities - other	715	-		715
347	Inter-program - due to	-	9,988	14,984	-
310	TOTAL CURRENT LIABILITIES	51,575	9,988	14,984	-
NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
354	Accrued Compensated Absences-non current	12,767			12,767
350	TOTAL NONCURRENT LIABILITIES	12,767	-	-	-
300	TOTAL LIABILITIES	64,342	9,988	14,984	-
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				-
508	Net Assets invested in Capital Assets	1,326,085		83,451	1,409,536
508	Total contributed capital	1,326,085	-	83,451	1,409,536
Reserved fund balance:					
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	162,009	(9,988)	-	65,829
513	TOTAL EQUITY	1,488,094	(9,988)	83,451	65,829
600	TOTAL LIABILITIES AND EQUITY	1,552,436	-	98,435	65,829

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Coldwater Housing Commission

31-Mar-07

MI056

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Component Unit	TOTAL
Line Item #						
	REVENUE:	-	-	-		
703	Net tenant rental revenue	277,000				277,000
704	Tenant revenue - other	19,925				19,925
705	Total tenant revenue	296,925	-	-	-	296,925
706	HUD PHA grants	64,105	83,317	77,115	-	224,537
708	Other government grants					-
711	Investment income - unrestricted	3,860	75	-	885	4,820
712	Mortgage interest income					-
714	Fraud recovery					-
715	Other revenue	8,190	-	-		8,190
716	Gain or loss on the sale of fixed assets	-				-
720	Investment income - restricted					-
700	TOTAL REVENUE	373,080	83,392	77,115	885	534,472
	EXPENSES:					
	Administrative					
911	Administrative salaries	85,537	6,702			92,239
912	Auditing fees	3,150	-			3,150
913	Outside management fees					-
914	Compensated absences	(2,594)				(2,594)
915	Employee benefit contributions- administrative	34,251	2,499			36,750
916	Other operating- administrative	33,869	1,920	-	-	35,789
	Tenant services					
921	Tenant services - salaries					-
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services					-
924	Tenant services - other	353				353
	Utilities					
931	Water	11,584				11,584
932	Electricity	34,710				34,710
933	Gas	40,740				40,740
934	Fuel	-				-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	33				33
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	50,534				50,534
942	Ordinary maintenance and operations - materials & other	15,486				15,486
943	Ordinary maintenance and operations - contract costs	37,562				37,562
945	Employee benefit contributions- ordinary maintenance	21,342				21,342
	Protective services					
951	Protective services - labor					-

952	Protective services- other contract costs					-
953	Protective services - other					-
955	Employee benefit contributions- protective services					-
	General expenses					
961	Insurance premiums	16,512				16,512
962	Other General Expenses	547				547
963	Payments in lieu of taxes	15,904				15,904
964	Bad debt - tenant rents	2,511				2,511
965	Bad debt- mortgages					-
966	Bad debt - other					-
967	Interest expense					-
968	Severance expense	-				-
969	TOTAL OPERATING EXPENSES	402,031	11,121	-	-	413,152
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(28,951)	72,271	77,115	885	121,320
971	Extraordinary maintenance	-				-
972	Casualty losses - non-capitalized	-				-
973	Housing assistance payments		70,497	-		70,497
974	Depreciation expense	170,797		4,228		175,025
975	Fraud losses					-
976	Capital outlays- governmental funds	-			-	-
977	Debt principal payment- governmental funds					-
978	Dwelling units rent expense					-
900	TOTAL EXPENSES	572,828	81,618	4,228	-	658,674
	OTHER FINANCING SOURCES (USES)					
1001	Operating transfers in (out)	33,006		(33,006)		-
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)	33,006	-	(33,006)	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER)	(166,742)	1,774	39,881	885	(124,202)

COLDWATER HOUSING COMMISSION
Status of Prior Audit Findings
March 31, 2007

The prior audit of the Coldwater Housing Commission for the period ended March 31, 2006, did not contained any audit findings.

COLDWATER HOUSING COMMISSION
Report on Compliance with Specific Requirements
Applicable to Non Major HUD Program Transactions
March 31, 2007

I have audited the financial statements of Coldwater Housing Commission, Coldwater Michigan, as of and for the year ended March 31, 2007, and have issued my report dated July 13, 2007.

In connection with that audit and with my consideration of the Commission's internal control used to administer HUD-assisted programs, as required by the Consolidated Audit Guide for Audits of HUD Programs (the Guide), issued by the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, I selected certain transactions applicable to certain nonmajor HUD-assisted programs for the year ended March 31, 2007.

As required by the Guide, I performed auditing procedures to test compliance with the requirements governing the Commission's grants that are applicable to those transactions. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commission's compliance with those requirements. Accordingly, I do not express such an opinion.

Material instances of noncompliance consist of failures to follow the specific requirements referred to above that caused me to conclude that the misstatements resulting from those failures are material to the Commission's grants. The results of my tests disclosed the instances of noncompliance that are described in the accompanying schedule of findings and questioned costs that are required to be reported herein under the Guide.

I considered those material instances of noncompliance in forming my opinion on whether the Commission's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and this report does not affect my report dated July 13, 2007, on those financial statements.

This report is intended solely for the information of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

COLDWATER HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
March 31, 2007

I have audited the financial statements of Coldwater Housing Commission, Coldwater, Michigan, as of and for the year ended March 31, 2007, and have issued my report thereon dated July 13, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether Coldwater Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: finding 07-1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Coldwater Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Coldwater Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
July 30, 2007

COLDWATER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
March 31, 2007

Summary of Auditor's Results:

Programs:

	Major Program	Non Major Program
Low income Public Housing		X
Capital Fund Project		X
Housing Choice Vouchers		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ Yes	_____ X _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ X _____ Yes	_____ _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Thresholds:

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

Name of Federal Program	Major Program	Questioned Costs	Audit Finding Number
Low Rent Program	No	None	None
Housing Choice Voucher Program	No	\$ 9,988	7-1
Capital Fund Program	No	None	None

COLDWATER HOUSING COMMISSION
Schedule of Findings
June 30, 2006

The following finding of the Coldwater Housing Commission, for the year ended March 31, 2007, were discussed with the Executive Director, Ms. Cathy Gordon, in an exit interview conducted July 13, 2007.

Finding 1: Questioned Cost- Voucher Program

The Commission transferred the Section 8 Housing Choice Voucher Program to the Michigan State Housing Development Authority on December 31, 2006; at the time of the transfer, the Commission owed wages and administrative cost in the amount of \$ 9,988. No administrative reserves exist and the balance owed remains.

Recommendation

The Commission realized the cost to administer the program far exceeded the fees which HUD allowed (Housing Assistance Admin Fees), therefore, to minimize the loss, requested permission from HUD to transfer the program. HUD reviewed the request and granted permission to transfer the program.

The Commission did what was in the best interest of the Commission; with such few vouchers, the program could not support the cost necessary to administer the program- but, at the time of the transfer, outstanding cost existed which exceeded the reserves. The Commission had reported the excess cost on the electronic forms quarterly and HUD questioned the overages, but never offered any solutions; at the time of the transfer it was not clear what to do with the deficit, the Director expected instructions from HUD.

The Commission has maintained a management account over the years; they used to earn a fee for managing an unrelated property in Coldwater, and also manage an 811 program for a non profit agency in Coldwater. Over the years, the management account has accumulated money which is reported as a component unit on the Financial Data Schedule (FDS) and is a part of the top level financial statements.

As a possible solution, I recommend the shortfall be reimbursed by the component unit to the Low Rent Program; the Commission has access to non federal funds in the management account which has been reported as a component unit. Should the reimbursement not be acceptable to HUD, I would recommend the Area office instruct the Commission on what course of action to take.

Reply

The Commission has struggled for years to maintain a quality Section 8 Housing Choice Voucher program. However, the intrinsic obstacles, associated with a small PHA managing such a limited number of vouchers (25), could not be resolved. This Executive Director recognized the inherited deficiencies, often discussed with HUD representatives the problem of balancing spending with requirements to lease units, looked for methods to minimize loss which included acquiring additional vouchers, and despite our best efforts the program continued to lose money.

Consequently, last year the Commission determined it was in the best interest of the agency to drop the Section 8HCV program. After conferring with HUD & MSHDA representatives, the process to transfer the program was initiated in October, preliminary approval from HUD Detroit field office came in November, and final approval from Washington was given prior to the 2006 calendar year end. During the entire process, the Commission communicated with HUD and sought direction for making this transition as seamless as possible. Finally, when the S8HCV program was transferred to MSHDA, the balance of funds remaining in that account was applied to the outstanding debt owed for wages and administrative costs.

The Commission agrees with the recommendation of the auditor and we are prepared to take corrective action. In order to compensate for the deficit, with approval from HUD, the Commission will use funds accumulated in a management account, reported annually as a component unit on the Financial Data Schedule (FDS), to reimburse the Low Rent Program for the shortfall.