ALBION HOUSING COMMISSION
ALBION, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Albion Housing Commission	Calhoun

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2006	May 31, 2007	June 5, 2007

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☒	Report on Compliance and Internal Controls

Certified Public Accountant (Firm Name)	Telephone Number		
Barry E. Gaudette, CPA, PC	(231) 946-8930		
Street Address	**City**	**State**	**Zip**
731 S. Garfield Avenue	Traverse City	MI	49686

Authorizing CPA Signature	Printed Name	License Number
Barry E. Gaudette, CPA	Barry E. Gaudette, CPA	11050

ALBION HOUSING COMMISSION
TABLE OF CONTENTS
September 30, 2006

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)	3-7
FINANCIAL STATEMENTS	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	8-9
Statement of Revenues, Expenses and Changes in Fund Net Assets	10
Statement of Cash Flows	11-12
Notes to Financial Statements	13-21
SUPPLEMENTAL INFORMATION	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	22-23
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	24
Combining Statement of Cash Flows	25-26
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	27
Financial Data Schedule	28-31
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	32-35
Schedule of Findings and Questioned Costs	36-41
Summary Schedule of Prior Audit Findings	42
Adjusting Journal Entries	43

INTRODUCTION

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

731 South Garfield Avenue
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the accompanying financial statements of the business-type activities of the Albion Housing Commission, Michigan, a component unit of the City of Albion, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Albion Housing Commission, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 31, 2007, on my consideration of Albion Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 7, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Albion Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Albion Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Vandell, CPA, PC

May 31, 2007

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2006
==========

Albion Housing Commission, created in 1950, by the City of Albion, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Albion Housing Commission consists of two programs. The first is owned housing, consisting of 215 units of public housing and the second is the capital funding program. Albion Housing Commission had total revenues of $1,316,385 that includes $334,667 in rental payments and $940,026 in federal assistance. Total operating expenses were $1,053,797, that includes $338,524 in administrative expenses, $119,699 in utilities, $315,445 in ordinary maintenance expenses, and $161,938 in depreciation expense. Total revenues increased by $47,900 from the prior year and operating expenses increased by $6,489 from the prior year for a net increase of $48,370, due in part to the increase in federal grants of $45,456.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by $3,575,930. The Housing Commission's total net assets increased by $262,588 from the prior year. The increase is attributable in part to the capital outlays of $503,494 being more than the depreciation expense of $161,938.

Total assets of the Housing Commission were $3,728,842 including $964,321 of current assets and $2,764,521 of capital assets. The Housing Commission had current liabilities of $73,729.

The financial condition of the Housing Commission continues to improve.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.

* Statement of Revenues, Expenses and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and

non-operating expenses and capital contributions.

* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The City of Albion has become economically and financially challenged with the closing of the hospital, a major foundry, decline in school enrollment, school closings, the closing of Department of Human Services office and the closing of many other businesses. With the above, the Albion Housing Commission has suffered a high volume of vacancies and crime.

The Albion Housing Commission has many negative renters and minimum renters. The housing commission also suffers from a high amount of drug activity, and crime rates due to the economic status of the City of Albion. Beginning June 1, 2007 and ending October 1, 2007, the housing commission has entered into a Cooperative Agreement with the Albion Public Safety Department to help out with the crime and drugs. We are hopeful that with the presence of public safety this will help draw more applicants to Northview Homes.

With high vacancy rates in Northview Homes, this will ultimately have a financial impact on the Albion Housing Commission.

The housing commission has programs for its residents and have made many improvements during the prior fiscal year to our community such as sidewalk repairs, sidewalk additions, bathroom renovations, kitchen renovations, carpet installation, fixture updates, resurfaced parking, siding replacement, window replacement, elevator update, added additional parking, and a new maintenance garage. The housing commission has committed to capital outlays for fiscal year ended September 30, 2007 for a stoves, refrigerators, handicap drinking fountain, asphalt replacement, handicap front loader washers and dryers, replace stove tops, replace flooring and replacement of entrance locks at our senior site.

Again, due to the high amount of vacancies and crime in Northview Homes, this will have a significant impact on the Albion Housing Commission's financial position and PHAS score.

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

Ann Kemp, Executive Director
1300 Cooper Street
Albion, Michigan 49224-4009

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended September 30, 2006 and 2005.

	2006	2005	Net Change
Current assets	$ 964,321	$1,040,841	$(76,520)
Capital assets	2,764,521	2,433,837	330,684
Total assets	$3,728,842	$3,474,678	$ 254,164
Current liabilities	$ 81,679	$ 89,787	$(8,108)
Noncurrent liabilities	71,233	71,549	(316)
Total liabilities	152,912	161,336	(8,424)
Net assets:			
Invested in capital assets	2,764,521	2,433,837	330,684
Unrestricted net assets	811,409	879,505	(68,096)
Total net assets	3,575,930	3,313,342	262,588
Total liabilities and net assets	$3,728,842	$3,474,678	$ 254,164

(a) Current assets decreased by $76,520, in part, because of the capital outlay program that is not funded by federal capital grant monies, reducing current liabilities, and wage increases.

(b) Capital assets increased by $330,684, in part, because the outlay for capital assets was $503,494 and depreciation expense was $161,938.

(c) Current liabilities decreased by $8,108, in part, because rents paid in advance were $8,527 less than the prior year.

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of revenues, expenses and changes in fund net assets of the Housing Commission for the years ended September 30, 2006 and 2005.

	2006	2005	Net Change
Operating revenues:			
Dwelling rent	$ 334,667	$ 334,681	$(14)
Nondwelling rent	4,639	5,095	(456)
Total operating revenues	339,306	339,776	(470)
Operating expenses:			
Administration	338,524	362,400	(23,876)
Tenant services	25,465	20,738	4,727
Utilities	119,699	104,917	14,782
Ordinary maintenance and operation	315,445	326,096	(10,651)
Protective services	864	762	102
General expenses	91,281	105,399	(14,118)
Extraordinary maintenance	581		581
Depreciation	161,938	126,996	34,942
Total operating expenses	1,053,797	1,047,308	6,489
Operating income(loss)	(714,491)	(707,532)	(6,959)
Non-operating revenue:			
Interest income	20,270	22,152	(1,882)
Other income	16,783	11,987	4,796
Operating grants	456,496	577,836	(121,340)
Capital grants	483,530	316,734	166,796
Total nonoperating revenue	977,079	928,709	48,370
Change in Net Assets	$ 262,588	$ 221,177	$ 41,411

(d) Administrative expenses decreased by $23,876, in part, because of legal expenses decreasing by $11,623, travel expenses decreasing by $2,709, accounting fees decreasing by $2,616, and employee benefits decreasing by $5,198 compared to the prior year.

(e) Tenant services increased by $4,727 due to more kids activities and contract labor working in the winter and summer, rather than just the summer months.

(f) Utilities increased by $14,782, in part, because of water and fuel rates increasing this year. Water expenses increased $5,782 and fuel expenses increased by $9,582.

(g) Ordinary maintenance and operation decreased by $10,651 this year, in part, because of contract costs decreasing by $28,053 and adding a maintenance person increased labor costs by $15,979.

(h) General expenses decreased by $14,118, in part, because of commercial and liability insurance costs decreasing by $6,744, PILOT decreased by $2,319, and there was not a severance expense this year of $3,839.

(i) Depreciation expense increased by $34,942, in part, because of capitalizing 2002 CFP improvements of $343,592 and 2003 CFP improvements of $280,853 with a useful life of 15 years. The depreciation expense on these assets was $32,268.

(j) Federal grants increased by $45,456, in part, because of closing out two capital funding grants this fiscal year.

FINANCIAL STATEMENTS

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006

ASSETS

Current Assets:	
Cash	$ 531,835
Accounts receivable-dwelling rents	10,368
Allowance for doubtful accounts	(6,361)
Investments-unrestricted	398,572
Prepaid expenses	29,907
Total Current Assets	964,321
Capital Assets:	
Land	19,144
Buildings	9,144,043
Equipment	455,108
Building improvements	2,723,550
	12,341,845
Less: accumulated depreciation	(9,577,324)
Net Capital Assets	2,764,521
Total Assets	$ 3,728,842

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	$ 37,476
Tenant security deposit liability	26,983
Accrued expenses	14,522
Deferred revenues	2,698
Total Current Liabilities	81,679
Noncurrent liabilities:	
Accrued compensated absences	71,233
Total Liabilities	152,912
Net Assets:	
Invested in capital assets	2,764,521
Unrestricted net assets	811,409
Total Net Assets	3,575,930
Total Liabilities and Net Assets	$ 3,728,842

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended September 30, 2006

OPERATING REVENUES:	
Dwelling rent	$ 334,667
Nondwelling rent	4,639
Total operating revenues	339,306
OPERATING EXPENSES:	
Administration	338,524
Tenant services	25,465
Utilities	119,699
Ordinary maintenance and operation	315,445
Protective services	864
General expenses	91,281
Extraordinary maintenance	581
Depreciation	161,938
Total operating expenses	1,053,797
Operating income(loss)	(714,491)
NONOPERATING REVENUES:	
Investment interest income	20,270
Other income	16,783
Operating grants	456,496
Capital grants	483,530
Total nonoperating revenues	977,079
Change in net assets	262,588
Equity transfers	(10,872)
Net assets, beginning	3,324,214
Net assets, ending	$ 3,575,930

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from dwelling and nondwelling rents	$ 332,886
Cash payments to other suppliers of goods and services	(383,491)
Cash payments to employees for services	(480,323)
Cash payments for in lieu of taxes	(24,322)
Net cash (used) by operating activities	(555,250)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Tenant security deposits	3,049
Operating grants	456,496
Other revenue	16,783
Net cash provided by noncapital financing activities	476,328
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants	483,530
Payments for capital acquisitions	(503,494)
Net cash (used) by capital and related financing activities	(19,964)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investments increased	(74,423)
Receipts of interest and dividends	20,270
Net cash (used) by investing activities	(54,153)
Net increase(decrease) in cash	(153,039)
Cash, beginning	684,874
Cash, ending	$ 531,835

ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006

RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET:

Cash	$ 531,835
Cash and cash equivalents per balance sheet	$ 531,835

SCHEDULE RECONCILING OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:

Operating income(loss)	$(714,491)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	161,938
Bad debt allowance change	873
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	2,107
Prepaid expenses	(5,076)
Increase (decrease) in liabilities:	
Accounts payable	7,188
Accrued wages/payroll taxes	3,373
Accrued compensated absences	(316)
Accrued payments in lieu of taxes	(2,319)
Deferred revenues	(8,527)
Net cash (used) by operating activities	$(555,250)

See notes to financial statements

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006
==========

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Albion Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Albion Housing Commission is a component unit of the City of Albion, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Albion on July 10, 1950, consisting of a five member board appointed by the City manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Albion Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development(HUD). Under Contract, C-3043, the Housing Commission constructed, maintains and operates 215 units of subsidized housing in the City of Albion, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic

resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Albion Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

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

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of $1,000 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	15 - 25 years
Furniture, equipment and machinery	7 - 10 years
Building improvements	15 - 25 years

Net Assets

The Housing Commission classifies its net assets as follows:

a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.

b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

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

* Vacation leave not used by employees may be accumulated up to two weeks upon approval of the Executive Director. An employee who is permanently separated by reason of resignation, retirement, death or termination shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave.

* Sick leave shall accumulate at the rate of one (1) day of each thirty (30) calendar days of service. A regular employee leaving the service of the Housing Commission, by reason of resignation, retirement, death or termination, will be paid in a lump sum 100% of all accumulated sick leave at the employee's current rate of pay. Each regular full time employee shall be given the option of cashing in accumulative sick leave at the end of every fiscal year which exceeds 60 days. Employees are only allowed to cash in a maximum of fifteen (15) days per fiscal year.

* Personal leave is earned at a rate of three days per year. Unused personal leave cannot be accumulated.

The amount of accumulated benefits at September 30, 2006, was $79,183, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

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

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were $531,835 and the bank balance was $579,989 of which $703,916 was covered by federal depository insurance and a collateral agreement.

Investments

The Housing Commission had the following investment accounts as of September 30, 2006:

LaSalle Bank (certificate of deposit #384863)	$ 72,604
Linsco Financial Services (money market #1117-5091)	321,077
LaSalle Bank (money market #60-S102-41-2)	4,891
	$ 398,572

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fail value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation(FDIC), National Credit Union Share Insurance Fund(NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depositary of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

1.	U.S. Treasury Notes	-	100%; or
2.	U.S. Treasury Notes and/or Bonds	-	75% and
3.	Mortgage Backed Securities	-	25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

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

Carrying amount of deposits	$ 531,835
Investments	398,572
Total	$ 930,407
Cash and investments:	
Enterprise activities	$ 978,561
Enterprise activities - checks written in excess of deposits	(48,154)
Total	$ 930,407

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2006, the receivables were $10,368 with $6,361 estimated as uncollectible. Bad debt expense was $4,962.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund payables to the Low Rent Program from the Capital Fund Program as of September 30, 2006

There were no individual fund operating transfers during the fiscal year from the capital fund program to the low rent program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Balance 09/30/05	Additions/ Transfers	Retirements/ Transfers	Balance 09/30/06
Low Rent Program				
Land	$ 19,144	$	$	$ 19,144
Buildings	9,144,043			9,144,043
Furniture, equip. & machinery - dwellings	91,561			91,561
Furniture, equip. & machinery - administration	286,688	76,859		363,547
Building improvements	1,588,727	624,445		2,213,172
	11,130,163	$ 701,304	$	11,831,467
Less accumulated depreciation	(9,405,296)	$(172,810)	$ 782	(9,577,324)
Total	$ 1,724,867			$ 2,254,143
Capital Fund Program				
Furniture, equip. & machinery - administration	$ 73,471	$	$ 73,471	$
Building improvements	645,588		135,210	510,378
	719,059	$	$ 208,681	510,378
Less accumulated depreciation	(10,089)	$	$ 10,089	
Total	$ 708,970			$ 510,378
Combined Totals				$ 2,764,521

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	Invested in Capital Assets
Balance, beginning	$ 2,433,837
Investment in fixed assets, net of depreciation paid for from operations net of depreciation	330,684
Balance, ending	$ 2,764,521

NOTE 6: EQUITY TRANSFERS

Low Rent Public Housing

Assets moved in from closed funds	$ 682,122
Accumulated depreciation moved in	(10,872)
	$ 671,250

Public Housing Capital Fund Program

Closed CFP transferred	$(682,122)

NOTE 7: OTHER INFORMATION

A. Pension Plan

The Housing Commission participates with the City of Albion where each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after ten (10) years. At December 31, 2006, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits for nonunion members was $3,591,828. The present value of accrued benefits available to meet this obligation were $733,713. The Valuation of the Assets for the Housing Commission as of December 31, 2006 was $1,025,991, leaving an overfunded balance of $340,129. There are 9 active members, 1 vested former member and 4 retirees and beneficiaries. The Municipality had employee payroll of $334,263, but did not have to make an employer contribution since there was an overfunded balance.

Further details are available from MERS at (800) 767-6377.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2006, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	$ 964,321	$
Capital assets	2,254,143	510,378
Total assets	$ 3,218,464	$ 510,378
Current liabilities	$ 81,679	$
Noncurrent liabilities	71,233	
Total liabilities	152,912	
Net assets:		
Invested in capital assets	2,254,143	510,378
Unrestricted net assets	811,409	
Total net assets	3,065,552	510,378
Total liabilities and net assets	$ 3,218,464	$ 510,378

	Low Rent Program	Capital Fund Program
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets		
Dwelling rent	$ 334,667	$
Nondwelling rent	4,639	
Depreciation	(161,938)	
Other operating expenses	(891,859)	
Operating(loss)	(714,491)	
Nonoperating revenues:		
Investment interest income	20,270	
Other income	16,783	
Operating grants	456,496	
Capital grants		483,530
Change in net assets	(220,942)	483,530
Equity transfers	671,250	(682,122)
Beginning net assets	2,615,244	708,970
Ending net assets	$ 3,065,552	$ 510,378
Condensed Statement of Cash Flows		
Net cash provided(used) by:		
Operating activities	$(555,250)	$
Noncapital financing activities	476,328	
Capital & related financing activities	(19,964)	
Investing activities	(54,153)	
Net increase(decrease)	(153,039)	
Beginning cash and cash equivalents	684,874	
Ending cash and cash equivalents	$ 531,835	$

SUPPLEMENTARY INFORMATION

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
September 30, 2006

	Low Rent Program 14.850	Capital Fund Program 14.872
ASSETS		
Current assets:		
Cash	$ 531,835	$
Accounts receivable-dwelling rents	10,368	
Allowance for doubtful accounts-dwelling rents	(6,361)	
Investments-unrestricted	398,572	
Prepaid expenses	29,907	
Total current assets	964,321	
Capital assets:		
Land	19,144	
Buildings	9,144,043	
Equipment	455,108	
Building improvements	2,213,172	510,378
	11,831,467	510,378
Less accumulated depreciation	(9,577,324)	
Net capital assets	2,254,143	510,378
Total Assets	$ 3,218,464	$ 510,378

Totals
$ 531,835
10,368
(6,361)
398,572
29,907
964,321
19,144
9,144,043
455,108
2,723,550
12,341,845
(9,577,324)
2,764,521
$ 3,728,842

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006

	Low Rent Program 14.850	Capital Fund Program 14.872
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	$ 37,476	$
Tenant security deposit liability	26,983	
Accrued expenses	14,522	
Deferred revenues	2,698	
Total current liabilities	81,679	
Noncurrent liabilities:		
Accrued compensated absences	71,233	
Total liabilities	152,912	
Net assets:		
Invested in capital assets	2,254,143	510,378
Unrestricted net assets	811,409	
Total net assets	3,065,552	510,378
Total Liabilities and Net Assets	$3,218,464	$ 510,378

Totals
$ 37,476
26,983
14,522
2,698
81,679
71,233
152,912
2,764,521
811,409
3,575,930
$ 3,728,842

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended September 30, 2006

	Low Rent Program 14.850	Capital Fund Program 14.872
OPERATING REVENUES:		
Dwelling rent	$ 334,667	$
Nondwelling rent	4,639	
Total operating revenues	339,306	
OPERATING EXPENSES:		
Administration	338,524	
Tenant services	25,465	
Utilities	119,699	
Ordinary maintenance and operation	315,445	
Protective services	864	
General expenses	91,281	
Extraordinary maintenance	581	
Depreciation	161,938	
Total operating expenses	1,053,797	
Operating income(loss)	(714,491)	
NONOPERATING REVENUES(EXPENSES):		
Investment interest income	20,270	
Other income	16,783	
Operating grants	456,496	
Capital grants		483,530
Total nonoperating revenues (expenses)	493,549	483,530
Change in net assets	(220,942)	483,530
Equity transfers	671,250	(682,122)
Net assets, beginning	2,615,244	708,970
Net assets, ending	$3,065,552	$510,378

Totals
$ 334,667
4,639
339,306
338,524
25,465
119,699
315,445
864
91,281
581
161,938
1,053,797
(714,491)
20,270
16,783
456,496
483,530
977,079
262,588
(10,872)
3,324,214
$ 3,575,930

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2006

	Low Rent Program 14.850	Capital Fund Program 14.872
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	$ 332,886	$
Cash payments to other suppliers of goods and services	(383,491)	
Cash payments to employees for services	(480,323)	
Cash payments for in lieu of taxes	(24,322)	
Net cash (used) by operating activities	(555,250)	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	3,049	
Operating grants	456,496	
Other revenue	16,783	
Net cash provided by noncapital financing activities	476,328	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		483,530
Payments for capital acquisitions	(19,964)	(483,530)
Net cash (used) by capital and related financing activities	(19,964)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments increased	(74,423)	
Receipts of interest and dividends	20,270	
Net cash (used) by investing activities	(54,153)	
Net increase(decrease) in cash	(153,039)	
Cash, beginning	684,874	
Cash, ending	$ 531,835	$

Totals
$ 332,886
(383,491)
(480,323)
(24,322)
(555,250)
3,049
456,496
16,783
476,328
483,530
(503,494)
(19,964)
(74,423)
20,270
(54,153)
(153,039)
684,874
$ 531,835

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006

	Low Rent Program 14.850	Capital Fund Program 14.872
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET:		
Cash	$ 531,835	$
Cash and cash equivalents per balance sheet	$ 531,835	$
SCHEDULE RECONCILING OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income(loss)	$(714,491)	$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	161,938	
Bad debt allowance change	873	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	2,107	
Prepaid expenses	(5,076)	
Increase (decrease) in liabilities:		
Accounts payable	7,188	
Accrued wages/payroll taxes	3,373	
Accrued compensated absences	(316)	
Accrued payments in lieu of taxes	(2,319)	
Deferred revenues	(8,527)	
Net cash (used) by operating activities	$(555,250)	$

Totals
$ 531,835
$ 531,835
$(714,491)
161,938
873
2,107
(5,076)
7,188
3,373
(316)
(2,319)
(8,527)
$(555,250)

ALBION HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	U.S. Department of HUD		
	Public and Indian Housing Major - Direct Program		
2006	Low Rent Public Housing	14.850	$ 456,496
	Public and Indian Housing Major - Direct Program		
2006	Capital Fund Program	14.872	483,529
	Total		$ 940,025

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

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

CFDA = Catalog of Federal Domestic Assistance

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2006

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	$ 531,835	$
100	Total cash	531,835	
	Receivables:		
126	A/R-tenants-dwelling rents	10,368	
126.1	Allowance for doubtful accounts-dwelling rent	(6,361)	
120	Total receivables, net of allowance for doubtful accounts	4,007	
	Current Investments:		
131	Investments-unrestricted	398,572	
	Other Current Assets:		
142	Prepaid expenses and other assets	29,907	
150	Total current assets	964,321	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	19,144	
162	Buildings	9,144,043	
163	Furn, equip & mach-dwellings	91,561	
164	Furn, equip & mach-admin.	363,547	
165	Building improvements	2,213,172	510,378
166	Accumulated depreciation	(9,577,324)	
160	Total fixed assets, net of accumulated depreciation	2,254,143	510,378
180	Total noncurrent assets	2,254,143	510,378
190	Total Assets	$ 3,218,464	$ 510,378

Totals
$ 531,835
531,835
10,368
(5,361)
4,007
398,572
29,907
964,321
19,144
9,144,043
91,561
363,547
2,723,550
(9,577,324)
2,764,521
2,764,521
$ 3,728,842

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	LIABILITIES AND EQUITY/NET ASSETS		
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	$ 15,473	$
321	Accrued wage/payroll taxes payable	6,572	
322	Accrued compensated absences-current portion	7,950	
333	Accounts payable-other government	22,003	
341	Tenant security deposits	26,983	
342	Deferred revenues	2,698	
310	Total current liabilities	81,679	
	Noncurrent Liabilities:		
354	Accrued compensated absences	71,233	
300	Total liabilities	152,912	
	Equity:		
508.1	Invested in capital assets	2,254,143	510,378
508	Total equity	2,254,143	510,378
	Net Assets:		
512.1	Unrestricted net assets	811,409	
513	Total equity/net assets	3,065,552	510,378
600	Total Liabilities and Equity/Net Assets	$3,218,464	$ 510,378

Totals
$ 15,473
6,572
7,950
22,003
26,983
2,698
81,679
71,233
152,912
2,764,521
2,764,521
811,409
3,575,930
$ 3,728,842

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	Revenue:		
703	Net tenant rental revenue	$ 334,667	$
704	Tenant revenue-other	4,639	
705	Total tenant revenue	339,306	
706	HUD PHA grants	456,496	
706.1	Capital grants		483,530
711	Investment income-unrestricted	20,270	
715	Other revenue	16,783	
700	Total revenue	832,855	483,530
	Expenses:		
	Administrative:		
911	Administrative salaries	196,726	
912	Auditing fees	4,500	
914	Compensated absences	(316)	
915	Employee benefit contributions-adm.	74,182	
916	Other operating-administrative	63,432	
	Tenant Services:		
924	Tenant services-other	25,465	
	Utilities:		
931	Water	45,485	
932	Electricity	28,325	
933	Gas	45,889	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	154,187	
942	Ordinary maint & oper-mat'ls & other	42,461	
943	Ordinary maint & oper-contract costs	60,512	
945	Employee benefit contributions-ordinary maintenance	58,285	
953	Protective services-other	864	
	General expenses:		
961	Insurance premiums	63,506	
963	Payments in lieu of taxes	22,003	
964	Bad debt-tenant rents	4,962	
967	Interest expense	810	
969	Total operating expenses	891,278	
970	Excess operating revenue over operating expenses	(58,423)	483,530

Totals
$ 334,667
4,639
339,306
456,496
483,530
20,270
16,783
1,316,385
196,726
4,500
(316)
74,182
63,432
25,465
45,485
28,325
45,889
154,187
42,461
60,512
58,285
864
63,506
22,003
4,962
810
891,278
425,107

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	581	
974	Depreciation expense	161,938	
	Total other expenses	162,519	
900	Total expenses	1,053,797	
1000	Excess (deficiency) of operating revenue over(under) expenses	(220,942)	483,530
1104	Prior period adjustments, equity transfers and correction of errors	671,250	(682,122)
1103	Beginning Net Assets	2,615,244	708,970
	Ending Net Assets	$ 3,065,552	$510,378

Totals
581
161,938
162,519
1,053,797
262,588
(10,872)
3,324,214
$ 3,575,930

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

731 South Garfield Avenue
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

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

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the financial statements of the business-type activities of the Albion Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated May 31, 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the 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 an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry Wardell, PC

May 31, 2007

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

731 South Garfield Avenue
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

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

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

Compliance

I have audited the compliance of the Albion Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

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

Compliance - Continued

As described in items 06-1 thru 06-3, in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding cash management, eligibility and special tests and provisions that are applicable to its Low Rent Program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry S. Vandell, PC

May 31, 2007

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2006

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
   a. Material weakness identified: No
   b. Reportable condition identified that is not a material weakness: No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
   a. Material weakness identified: No
   b. Reportable condition that is not a material weakness: No
2. Type of auditor's report issued on compliance for major programs: Qualified
3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: Yes
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	$ 456,496	Yes	C	N/A	06-1
				E	N/A	06-2
				N	N/A	06-3
14.872	Capital Fund Program	483,529	Yes	O	N/A	N/A
	Total	$ 940,025				

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Housing Commission was determined to be a low-risk auditee.

B. Federal Awards Findings

Low Rent Public Housing Program - CFDA No. 14.850

Finding 06-1: Year Ended September 30, 2006

Criteria: HUD has a financial indicator for tenant receivable outstanding for "small" housing commissions of equal to or less than 4.5.

Statement of Condition: The housing commission's ratio for this financial indicator was 11.15 for the fiscal year ended September 30, 2006.

Questioned Costs: There are no questioned costs.

Perspective Information: The accounts receivable of $10,368 consists of tenant receivables over one month of $5,008, vacated tenants of $4,281 and current receivables of $1,079.

Cause and Effect: The Housing Commission writes off bad accounts receivable in October of each year. This has the effect of including tenant accounts receivables that are uncollectible as of the end of the fiscal year.

Recommendation: I recommend that the Housing Commission be diligent in following its collection policy and to consider making adopting a resolution to write of uncollectible tenant accounts in September of each year rather than October. Also, the Housing Commission should attempt to have accounts receivable be less than 10% of the monthly rent roll, i.e. approximately $3,000.

B. Financial Statements Findings and Questioned Costs

None

C. Federal Award Findings and Questioned Costs

Low Rent Public Housing Program - CFDA No. 14.850

Finding 06-2: Year Ended September 30, 2006

Condition and Criteria: Documentation to determine **eligibility** is missing or incorrect in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause: The staff in charge of this program did not obtain all of the recommended documentation.

Population and Items Tested: We started with the 11th file and selected every 23rd file after that to test from an ad-hoc tenant report provided by the Albion Housing Commission. We selected 9 tenant files to test from a population of 206 tenant files to choose from.

We looked for the following required documentation in the files:

		# of Exceptions
a.	HUD Form 50058	0
b.	Privacy Act Notice	0
c.	Proper Verification of Income	2
d.	Proper Verification of Expenses	0
e.	Proper Verification of Assets	0
f.	Inspection Report	0
g.	Lease	2
h.	Application	0
i.	Copy of Photo I.D.	0
j.	Copy of Social Security Number Verification	0
k.	Copy of Birth Certificate	1
l.	Income Based/Flat Rent Choice	2
m.	Worksheet for HUD-50058	0
n.	Notice of Rent Adjustment	0
o.	Criminal Background Check	5
p.	Declaration of 214 Status	6
q.	Check for Previous Eviction from Public Housing	2
r.	Family Composition Review	0
	Total Exceptions	20

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

Finding 06-2 (continued): Year Ended September 30, 2006

Out of a possible 162, there were 20 exceptions from this test. This represents an exception rate of 12.35%.

Auditor's Recommendation: It is recommended that the Albion Housing Commission correct the documentation in all of the tenant files where possible. It is recommended that the inspection process be improved by having all of the proper **inspection forms** completed at the time of the inspection.

It is also recommended that all **214 Status Declaration Forms** be signed by the adult where appropriate for minors, and that the signature be the adults name and that the adult not sign the child's name. This should be done on all future 214 Declaration Forms and new 214 Declaration Forms should be prepared for tenants that incorrectly signed previous 214 Declaration Forms.

Finally, it should be noted that the exception rate for this program was relatively low.

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

Finding 06-2 (continued): Year Ended September 30, 2006

The following is a short summary of exceptions:

File	Client	1	2	3	4	5	6	7	8	9
1	2112-02	x								
2	1031-07									
3	1091-08		x							
4	1058-06	x	x	x						
5	3152-06	x		x						
6	1041-07	x								
7	1051-05	x							x	
8	1008-06									
9	2138-02								x	
Number of Hits		5	2	2	0	0	0	0	2	0
% of Hits		56%	22%	22%	0%	0%	0%	0%	22%	0%

Legend

1. No proper evidence that a criminal background check was conducted, or that it was in the tenant file. It may not be kept in the file unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

Finding 06-3: Year Ended September 30, 2006

Condition and Criteria: The **criminal background check** was in 5 of the 9 tenant files tested.

Effect: The right of the tenants to privacy was violated.

Cause: The staff in charge of this program did not make sure that the criminal background checks were not in the tenant files.

Population and Items Tested: 9 files out of a population of approximately 206 tenant files were tested. Out of the 9 tenant files tested, 5 tenant files contained the criminal background check. This represents an exception rate of 55.56%.

Auditor's Recommendation: It is recommended that the staff remove the criminal background checks from all of the tenant files. The files should document that a criminal background check was done, on what date, and if the applicant was eligible or ineligible for the housing program. A new form or additional entries on current forms should be used to document the files.

ALBION HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2006

Finding 05-1: The Housing Commission had in previous years obtained depository agreements with the banks it had accounts with, but they are outdated.

The Housing Commission has obtained new depositary agreements from all of the institutions that hold their deposits and investments.

This finding has been cleared.

Finding 05-2: The Michigan Department of Treasury regulations require that all invoices must be approved by the Board prior to payment unless otherwise addressed in a formal policy. The Housing Commission paid invoices on a weekly basis, while the Board meets once a month.

The Board on June 19, 2006, adopted a financial management internal financial controls policy and procedures that states that all invoices (with certain exceptions) be approved by the Board before payment.

This finding has been cleared.

ALBION HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2006

Electronic Submission Line Number	Account Name	Debit	Credit
LOW RENT PROGRAM			
	-1-		
512.1	Unrestricted Net Assets	$ 171,171	
508.1	Invested in Capital Assets, Net of Related Debt		$ 171,171
	To reclassify invested in capital assets to agree to total fixed assets, net of accumulated depreciation.		
	-2-		
354	Accrued compensated absences	7,950	
322	Accrued compensated absences		7,950