

CHEBOYGAN HOUSING COMMISSION
CHEBOYGAN, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Cheboygan Housing Commission	County Cheboygan
Fiscal Year End March 31, 2007	Opinion Date November 9, 2007	Date Audit Report Submitted to State November 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

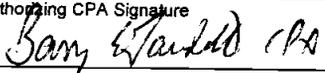
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Control		
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930		
Street Address 731 S. Garfield Avenue		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA		License Number 11050

CHEBOYGAN HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

I have audited the accompanying financial statements of the business-type activities of Cheboygan Housing Commission, Michigan, a component unit of the City of Cheboygan, as of and for the year ended March 31, 2007, 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 Cheboygan Housing Commission, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cheboygan Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 9, 2007, on my consideration of Cheboygan 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 10, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Cheboygan 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 Cheboygan 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.



November 9, 2007

**Cheboygan Housing Commission
Management's Discussion and Analysis (MD&A)
March 31, 2007
(Unaudited)**

As management of the Cheboygan Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Cheboygan Housing Commission's financial activities for the fiscal year ended March 31, 2007. This discussion and analysis letter of the Cheboygan Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of March 31, 2007 were \$477,490. The net assets decreased by \$98,969, a decrease of 17.2% from the prior year.

Revenues and contributions for the Commission were \$698,659 for the fiscal year ended March 31, 2007. This was a decrease of \$18,679 or 2.6% from the prior year.

Expenses for the Commission were \$797,628 for the fiscal year ended March 31, 2007. This was an increase of \$50,094 or 6.7% from the prior year.

HUD operating grants were \$560,720 for the fiscal year ended March 31, 2007. This was an increase of \$1,282 or .2% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

FUND STATEMENTS

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

Cheboygan Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 100% of these funds, if need be, to supplement Operating Subsidies, since the Housing Commission has less than 250 low rent units. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$477,490 at the close of the fiscal year ended March 31, 2007 down from \$576,459 in 2006. The decrease in net assets of \$98,969 was due to the change in net assets for the fiscal year.

The unrestricted net assets were \$207,687 as of March 31, 2007. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 226,833	\$ 235,779	\$ (8,946)	(3.79)%
Capital assets	<u>269,803</u>	<u>361,612</u>	<u>(91,809)</u>	<u>(25.39)%</u>
Total Assets	<u>496,636</u>	<u>597,391</u>	<u>(100,755)</u>	<u>(16.87)%</u>
Current liabilities	<u>19,146</u>	<u>20,932</u>	<u>(1,786)</u>	<u>(8.53)%</u>
Total Liabilities	<u>19,146</u>	<u>20,932</u>	<u>(1,786)</u>	<u>(8.52)%</u>
Net Assets:				
Invested in capital assets	269,803	361,612	(91,809)	(25.39)%
Unrestricted	<u>207,687</u>	<u>214,847</u>	<u>(7,160)</u>	<u>(3.33)%</u>
Total Net Assets	<u>\$ 477,490</u>	<u>\$ 576,459</u>	<u>\$ (98,969)</u>	<u>(17.17)%</u>

Current and other assets decreased, in part, due a decrease in cash in the Housing Choice program.

The current liabilities decreased slightly, in part, due to deferred revenues decreasing \$895 and tenant security deposits decreasing \$987 from the prior year.

The largest portion of the Commission's net assets reflects its investment in capital assets(e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the following table total revenues and contributions decreased by \$18,679, in part, due to a decrease in capital contributions of \$28,186, which was partially offset by increases in rental income, HUD operating grants, interest income and other income.

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

MARCH 31,

	<u>2007</u>	<u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues and contributions				
Operating, nonoperating, capital contributions:				
Rental revenue	\$ 75,074	\$ 72,230	\$ 2,844	3.9%
HUD operating grants	560,720	559,438	1,282	.2%
Interest income	9,020	5,155	3,865	75.0%
Capital contributions	51,918	80,104	(28,186)	(35.2)%
Other income	2,411	94	2,317	100.0%
Gain(loss) on sale of fixed assets	(504)	100	(604)	(100.0)%
Fraud recovery	<u>20</u>	<u>217</u>	<u>(197)</u>	<u>(90.8)%</u>
 Total Revenues and Contributions	 <u>698,659</u>	 <u>717,338</u>	 <u>(18,679)</u>	 <u>(2.6)%</u>
Expenses				
Personal services	148,307	127,421	20,886	16.4%
Utilities	19,249	20,734	(1,485)	(7.2)%
Operations & maintenance	24,621	20,445	4,176	20.4%
Insurance	10,738	10,635	103	1.0%
Payments in lieu of taxes	5,232	4,704	528	11.2%
Other supplies & expenses	30,142	41,549	(11,407)	(27.5)%
Housing Assistance Payments	466,886	425,177	41,709	9.8%
Depreciation	<u>92,453</u>	<u>96,869</u>	<u>(4,416)</u>	<u>(4.6)%</u>
 Total Expenses	 <u>797,628</u>	 <u>747,534</u>	 <u>50,094</u>	 <u>6.7%</u>
 Change in net assets	 (98,969)	 (30,196)	 (68,773)	
Beginning net assets	<u>576,459</u>	<u>606,655</u>	<u>(30,196)</u>	
Ending net assets	<u>\$ 477,490</u>	<u>\$576,459</u>	<u>\$(98,969)</u>	

Total expenses for the Commission increased by \$50,094 due to inflation increases in personal services, more maintenance material costs and more Housing Choice Vouchers issued, which were slightly offset by decreases in water and gas expenses, and a decrease in other costs in the Housing Choice Voucher program.

FINANCIAL ANALYSIS (CONTINUED)

The following represents changes in Federal Assistance received:

<u>Program Source</u>	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing Operating Subsidy	\$ 74,259	\$ 68,025	\$ 6,234	9.16%
Capital Fund Program Grants	51,918	80,104	(28,186)	(35.19)%
Sec. 8 Voucher	<u>486,461</u>	<u>491,413</u>	<u>(4,952)</u>	<u>(1.01)%</u>
Total	<u>\$ 612,638</u>	<u>\$639,542</u>	<u>\$(26,904)</u>	<u>(4.21)%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. Capital Fund Program grants were used entirely for operating costs this fiscal year. The subsidy for Section 8 remained relatively stable. Public Housing subsidy increased slightly. The decrease in the Capital Fund Program was due to the fact that work projects during the fiscal year ended March 31, 2007 progressed along at a slower pace than the prior year, thus utilizing less of our Capital Fund Program funding in Fiscal year ended March 31, 2007 than in Fiscal year ended March 31, 2006.

Budget Analysis:

A Low Rent Public Housing Operating Budget for fiscal year ended March 31, 2007 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

OPERATIONAL HIGHLIGHTS

The Cheboygan Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
Low Rent Public Housing	38	38
Sec. 8 Housing Choice Voucher	120	120

During Fiscal year ended March 31, 2007, Cheboygan Housing Commission maintained a lease-up rate of 99.8% in its Public Housing Program and a lease-up rate of 100.0% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

OPERATIONAL HIGHLIGHTS (CONTINUED)

During Fiscal year ended March 31, 2007, our Capital Fund Program work projects included:

- * A refrigerator for \$449 and a DeWalt 2800 PSI gas pressure washer for \$699.

For the fiscal year ending March 31, 2008 we will be making minor building repairs, replacing down spouts, splash guards, outside landscaping and yard work. Also, we will be replacing office equipment such as two new computer systems and a copier.

Our Public Housing program has not changed significantly from the previous years. The primary financial change would be our Capital Fund program. These funds from previous years have primarily been used for renovations of all of our Public Housing properties. This year we used 100% of the funding for operations and next year we'll be using at least 75% for operations. This decision has been made primarily to replenish our reserves and help with our Public Housing operating budget.

CAPITAL ASSETS

Capital Assets - The Cheboygan Housing Commission's investment in capital assets, as of March 31, 2007 amounts to \$269,803 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 20,559	\$ 20,559	\$
Buildings	1,689,126	675,973	1,013,153
Furniture, equipment and machinery - dwelling	26,484	26,035	449
Furniture, equipment and machinery - administration	97,880	99,070	(1,190)
Building improvements	<u>205,444</u>	<u>1,218,598</u>	<u>(1,013,154)</u>
	2,039,493	2,040,235	(742)
Accumulated depreciation	<u>(1,769,690)</u>	<u>(1,678,623)</u>	<u>(91,067)</u>
Total	<u>\$ 269,803</u>	<u>\$ 361,612</u>	<u>\$ (91,809)</u>

CAPITAL ASSETS (CONTINUED)

The total decrease in the Housing Commission's capital assets for the current fiscal year was \$91,809 or 25.4% in terms of net book value. Actual expenditures to purchase equipment was \$1,148 for the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

REQUEST FOR INFORMATION

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

Dorene Stempky, Executive Director
Cheboygan Housing Commission
659 Cuyler Street
Cheboygan, Michigan

FINANCIAL STATEMENTS

CHEBOYGAN HOUSING COMMISSION

STATEMENT OF NET ASSETS

March 31, 2007

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ASSETS

Current Assets:

Cash and cash equivalents	\$	193,218
Investments		20,000
Prepaid expenses		12,505
Inventories		<u>1,110</u>

Total Current Assets		<u>226,833</u>
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Capital Assets:

Land		20,559
Buildings		1,689,126
Equipment		124,364
Building improvements		<u>205,444</u>

2,039,493

Less: accumulated depreciation		<u>(1,769,690)</u>
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Net Capital Assets		<u>269,803</u>
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Total Assets	\$	<u><u>496,636</u></u>
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See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2007
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 10,771
Tenant security deposit liability	5,342
Accrued expenses	2,119
Deferred revenues	<u>914</u>
Total Current Liabilities	<u>19,146</u>
Net Assets:	
Invested in capital assets	269,803
Unrestricted net assets	<u>207,687</u>
Total Net Assets	<u>477,490</u>
Total Liabilities and Net Assets	<u>\$ 496,636</u>

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
**STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS**
 Year Ended March 31, 2007

OPERATING REVENUES:

Dwelling rent	\$ 73,343	
Nondwelling rent	1,731	<u> </u>
 Total operating revenues		 <u>75,074</u>

OPERATING EXPENSES:

Administration	136,925	
Tenant services	1,256	
Utilities	19,249	
Ordinary maintenance and operation	64,939	
General expenses	15,920	
Housing assistance payments	466,886	
Depreciation	92,453	<u> </u>
 Total operating expenses		 <u>797,628</u>

Operating income(loss) (722,554)

NONOPERATING REVENUES:

Investment interest income	9,020	
Other income	2,411	
Fraud recovery	20	
Operating grants	612,638	
Loss on sale of fixed assets	(504)	<u> </u>

Total nonoperating revenues 623,585

Change in net assets (98,969)

Net assets, beginning 576,459

Net assets, ending \$ 477,490

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2007

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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 74,179
Cash payments to other suppliers of goods and services	(555,469)
Cash payments to employees for services	(148,117)
Cash payments for in lieu of taxes	<u>(4,704)</u>
Net cash (used) by operating activities	<u>(634,111)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	(987)
Operating grants	612,638
Fraud recovery	20
Other revenue	<u>2,411</u>
Net cash provided by noncapital financing activities	<u>614,082</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Loss on sale of fixed assets	(504)
Payments for capital acquisitions	<u>(644)</u>
Net cash (used) by capital and related financing activities	<u>(1,148)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>9,020</u>
Net cash provided by investing activities	<u>9,020</u>

Net increase(decrease) in cash	(12,157)
Cash and cash equivalents, beginning	<u>205,375</u>
Cash and cash equivalents, ending	<u>\$ 193,218</u>

CHEBOYGAN HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended March 31, 2007

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

Operating income(loss)	\$(722,554)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	92,453
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Prepaid expenses	(3,211)
Increase (decrease) in liabilities:	
Accounts payable	(622)
Accrued wage/payroll taxes payable	190
Accounts payable-PILOT	528
Deferred revenues	<u>(895)</u>
Net cash (used) by operating activities	<u><u>\$(634,111)</u></u>

See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
March 31, 2007

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NOTE 1: Summary of Significant Accounting Policies

The Cheboygan Housing Commission (the Housing Commission) is a component unit of the City of Cheboygan, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Cheboygan on October 3, 1958, consisting of a five member board appointed by the City Mayor and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
---------------------	--------------------

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1(c) Measurement Focus and Basis of Accounting

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

Measurement Focus

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

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position,

and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

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

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

Interprogram Receivables and Payables

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

Receivables

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

Inventories

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

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

Estimates and Assumptions

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$25 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

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

Building improvements	3 - 20 years
Buildings	40 years
Equipment - dwellings	7 years
Equipment - administration	3 - 10 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In

accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. There was no unused accumulated vacation leave as of March 31, 2007.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

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

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: Stewardship, Compliance, and Accountability

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

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Housing Choice Vouchers	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written Depository Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended March 31, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

NOTE 3: Detail Notes on Transactions Classes/Accounts

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

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$182,729	\$182,729	\$	\$	\$ 177,179
Savings	15,989	15,989			15,989
	<u>\$198,718</u>	<u>\$198,718</u>	<u>\$</u>	<u>\$</u>	<u>\$ 193,168</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at March 31, 2007. The categories of credit risk are defined as follows:

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

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

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

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Certificates of deposits	<u>\$ 20,000</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

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

Cash on hand	\$ 50
Carrying amount of deposits	193,168
Investments	<u>20,000</u>
Total	<u>\$ 213,218</u>
Cash and investments:	
Enterprise activities	\$ 218,767
Enterprise activities - checks written in excess of deposits	<u>(5,549)</u>
Total	<u>\$ 213,218</u>

3(b) Capital Assets

Capital asset activity for the year ended March 31, 2007, was as follows:

	<u>Balance 03/31/06</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 03/31/07</u>
Low Rent Program				
Land	\$ 20,559	\$ _____	\$ _____	\$ 20,559
Buildings	660,712	1,028,414		1,689,126
Furniture, equip. & machinery - dwellings	24,660	1,824		26,484
Furniture, equip. & machinery - administration	74,623	11,529	1,889	84,263
Building improvements	<u>1,201,564</u>	<u>_____</u>	<u>996,120</u>	<u>205,444</u>

	<u>Balance 03/31/06</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 03/31/07</u>
	1,982,118	\$ <u>1,039,878</u>	\$ <u>996,120</u>	2,025,876
Less accumulated depreciation	<u>(1,663,465)</u>	\$ <u>(93,396)</u>	\$ _____	<u>(1,756,861)</u>
Total	\$ <u>318,653</u>			\$ <u>269,015</u>

Capital Fund Program

Buildings	\$ 15,261	\$	\$ (15,261)	\$
Furniture, equip. & machinery - dwellings	1,375		(1,375)	
Furniture, equip. & machinery - administration	10,830		(10,830)	
Building improvements	<u>17,034</u>		<u>(17,034)</u>	
	44,500	\$ _____	\$ <u>(44,500)</u>	
Less accumulated depreciation	<u>(2,797)</u>	\$ _____	\$ <u>2,797</u>	
Total	\$ <u>41,703</u>			\$ _____

Housing Choice

Voucher Program

Furniture, equip. & machinery - administration	\$ 13,617	\$	\$	\$ 13,617
Less accumulated depreciation	<u>(12,361)</u>	<u>(468)</u>		<u>(12,829)</u>
Total	\$ <u>1,256</u>			\$ <u>788</u>

Combined Totals

\$ 269,803

3(c) Accounts Payable

Payable detail at March 31, 2007, is as follows:

Accounts payable - vendors	\$ 5,539
Accounts payable - other government-PILOT	5,232
	<u>\$ 10,771</u>

3(d) Interprogram Transactions and Balances

Operating Transfers

There was an operating transfer of \$51,918 from the Capital Fund Program to the Low Rent Program during the fiscal year ended March 31, 2007.

Interprogram Receivable/(Payable)

Housing Choice Vouchers	\$(14,017)
Low Rent Program	<u>14,017</u>
	<u>\$</u>

NOTE 4: Other Notes

4(a) Employee Retirement Plan

On May 4, 2005, the Housing Commission adopted Resolution 2005/09, Retirement/Pension Plan for Cheboygan Housing Commission. This plan was implemented retroactive to April 1, 2004. The Housing Commission authorized on June 2, 2004, the Executive Director to remove \$20,000 from the general fund to establish the retirement/pension plan by depositing said sum into Account #414053455 at First Federal Savings & Loan Bank.

All permanent full-time employees are required to participate in the Program as a condition of their employment.

The employer will calculate eight percent (8%) on the employee's gross wages, pretaxed, and the Cheboygan Housing Commission will match the amount withheld and all monies are to be deposited at First Federal of Northern Michigan Bank in a Commercial Money Market account set up specifically for the Cheboygan Housing Commission Retirement Program. As of March 31, 2007 the total amount held in the retirement account was \$47,877.

The pension plan is a defined benefit pension plan. The employer contributions during the fiscal year ended March 31, 2007 totaled \$11,157.

4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with the Housing Insurance Services, Inc.
b. Injuries to employees (workers' compensation)	Purchased insurance with Firstcomp Insurance Company.
c. Physical property loss and natural disasters	Purchased commercial property insurance from the Housing Insurance Services, Inc.

- d. Commercial liability Purchased commercial liability insurance with Housing Authority Risk Retention Group.

- e. Health Blue Cross Blue Shield.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4(c) Commitments and Contingencies

Commitments - Construction

At March 31, 2007, the Housing Commission has a 2007 CFP grant to expend.

Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

4(d) Equity Transfers

The Capital Fund Program made a transfer of equity of \$41,703 to the Low Rent Program during the fiscal year ending March 31, 2007.

SUPPLEMENTARY INFORMATION

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM
 March 31, 2007

=====

	C-3023	Capital
	Low Rent	Fund
	Program	Program
	<u>14.850a</u>	<u>14.872</u>

ASSETS

Current assets:		
Cash and cash equivalents	\$ 128,703	\$
Investments-unrestricted	20,000	
Prepaid expenses	11,579	
Inventories	1,110	
Due from other programs	<u>14,017</u>	<u> </u>
Total current assets	<u>175,409</u>	<u> </u>
Capital assets:		
Land	20,559	
Buildings	1,689,126	
Equipment	110,747	
Building improvements	<u>205,444</u>	<u> </u>
	2,025,876	
Less accumulated depreciation	<u>(1,756,861)</u>	<u> </u>
Net capital assets	<u>269,015</u>	<u> </u>
Total Assets	<u>\$ 444,424</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 64,515	\$ 193,218
	20,000
926	12,505
	1,110
<u> </u>	<u>14,017</u>
<u>65,441</u>	<u>240,850</u>
	20,559
	1,689,126
13,617	124,364
<u> </u>	<u>205,444</u>
13,617	2,039,493
<u>(12,829)</u>	<u>(1,769,690)</u>
<u>788</u>	<u>269,803</u>
<u>\$ 66,229</u>	<u>\$ 510,653</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM (CONTINUED)
 March 31, 2007

=====

	C-3023	Capital
	Low Rent	Fund
	Program	Program
	<u>14.850a</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:		
Accounts payable	\$ 10,255	\$
Tenant security deposit liability	5,342	
Accrued expenses	2,119	
Deferred revenues	914	
Due to other programs	<u> </u>	<u> </u>
Total current liabilities	<u>18,630</u>	<u> </u>
Net Assets:		
Invested in capital assets	269,015	
Unrestricted net assets	<u>156,779</u>	<u> </u>
Total net assets	<u>425,794</u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 444,424</u>	<u>\$</u>

Housing Choice Vouchers <u>14,871</u>	<u>Totals</u>
\$ 516	\$ 10,771
	5,342
	2,119
	914
<u>14,017</u>	<u>14,017</u>
<u>14,533</u>	<u>33,163</u>
788	269,803
<u>50,908</u>	<u>207,687</u>
<u>51,696</u>	<u>477,490</u>
<u>\$ 66,229</u>	<u>\$ 510,653</u>

CHEBOYGAN HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended March 31, 2007

=====

	C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 73,343	\$
Nondwelling rent	<u>1,731</u>	<u> </u>
Total operating revenues	<u>75,074</u>	<u> </u>
OPERATING EXPENSES:		
Administration	72,043	
Tenant services	1,256	
Utilities	19,249	
Ordinary maintenance and operation	64,939	
General expenses	15,920	
Housing assistance payments		
Depreciation	<u>91,985</u>	<u> </u>
Total operating expenses	<u>265,392</u>	<u> </u>
Operating income(loss)	<u>(190,318)</u>	<u> </u>
NONOPERATING REVENUES:		
Operating transfers in(out)	51,918	(51,918)
Investment interest income	4,736	
Other income	2,411	
Fraud recovery		
Operating grants	74,259	51,918
Loss on sale of fixed assets	<u>(504)</u>	<u> </u>
Total nonoperating revenues	<u>132,820</u>	<u> </u>
Change in net assets	(57,498)	
Equity transfers	41,703	(41,703)
Net assets, beginning	<u>441,589</u>	<u>41,703</u>
Net assets, ending	<u>\$ 425,794</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$
	73,343
	1,731
	<u>75,074</u>
64,882	136,925
	1,256
	19,249
	64,939
	15,920
466,886	466,886
<u>468</u>	<u>92,453</u>
<u>532,236</u>	<u>797,628</u>
<u>(532,236)</u>	<u>(722,554)</u>
4,284	9,020
	2,411
20	20
486,461	612,638
	<u>(504)</u>
<u>490,765</u>	<u>623,585</u>
<u>(41,471)</u>	<u>(98,969)</u>
<u>93,167</u>	<u>576,459</u>
<u>\$ 51,696</u>	<u>\$ 477,490</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended March 31, 2007

=====

	C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 74,179	\$
Cash payments to other suppliers of goods and services	(69,952)	
Cash payments to employees for services	(101,100)	
Cash payments for in lieu of taxes	<u>(4,704)</u>	<u> </u>
Net cash (used) by operating activities	<u>(101,577)</u>	<u> </u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers in(out)	51,918	(51,918)
Tenant security deposits	(987)	
Due from/to other funds	(9,241)	
Operating grants	74,259	51,918
Fraud recovery		
Other revenue	<u>2,411</u>	<u> </u>
Net cash provided by noncapital financing activities	<u>118,360</u>	<u> </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Loss on sale of fixed assets	(504)	
Payments for capital acquisitions	<u>(644)</u>	<u> </u>
Net cash (used) by capital and related financing activities	<u>(1,148)</u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>4,736</u>	<u> </u>
Net cash provided by investing activities	<u>4,736</u>	<u> </u>
Net increase(decrease) in cash	20,371	
Cash and cash equivalents, beginning	<u>108,332</u>	<u> </u>
Cash and cash equivalents, ending	<u>\$ 128,703</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 74,179
(485,517)	(555,469)
(47,017)	(148,117)
<u> </u>	<u>(4,704)</u>
<u>(532,534)</u>	<u>(634,111)</u>
	(987)
9,241	
486,461	612,638
20	20
<u> </u>	<u>2,411</u>
<u>495,722</u>	<u>614,082</u>
	(504)
<u> </u>	<u>(644)</u>
	(1,148)
<u>4,284</u>	<u>9,020</u>
<u>4,284</u>	<u>9,020</u>
(32,528)	(12,157)
<u>97,043</u>	<u>205,375</u>
<u>\$ 64,515</u>	<u>\$ 193,218</u>

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

Year Ended March 31, 2007

=====

	C-3023	Capital
	Low Rent	Fund
	Program	Program
	<u>14.850a</u>	<u>14.872</u>

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

Operating income(loss)	\$(190,318)	\$
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	91,985	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Prepaid expenses	(2,285)	
Increase (decrease) in liabilities:		
Accounts payable	(782)	
Accrued wage/payroll taxes payable	190	
Accounts payable-PILOT	528	
Deferred revenues	<u>(895)</u>	<u> </u>
Net cash (used) by operating activities	<u>\$(101,577)</u>	<u> </u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$(532,236)	\$(722,554)
468	92,453
(926)	(3,211)
160	(622)
_____	190
_____	528
_____	(895)
<u>\$(532,534)</u>	<u>\$(634,111)</u>

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2007
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 74,259
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	51,918
	<u>Low Income Public Housing Major - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	<u>486,461</u>
	Total		<u>\$ 612,638</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

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

CFDA = Catalog of Federal Domestic Assistance

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended March 31, 2007

=====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 123,361	\$
114	Cash-tenant security deposits	<u>5,342</u>	<u> </u>
100	Total cash	<u>128,703</u>	<u> </u>
131	Investments-unrestricted	<u>20,000</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	11,579	
143	Inventories	1,110	
144	Interprogram due from	<u>14,017</u>	<u> </u>
	Total other current assets	<u>26,706</u>	<u> </u>
150	Total current assets	<u>175,409</u>	<u> </u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	20,559	
162	Buildings	1,689,126	
163	Furn, equip & mach-dwellings	26,484	
164	Furn, equip & mach-admin.	84,263	
165	Building improvements	205,444	
166	Accumulated depreciation	<u>(1,756,861)</u>	<u> </u>
160	Total fixed assets, net of accumulated depreciation	<u>269,015</u>	<u> </u>
180	Total noncurrent assets	<u>269,015</u>	<u> </u>
190	Total Assets	<u>\$ 444,424</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 64,515	\$ 187,876
<u>64,515</u>	<u>5,342</u>
	<u>193,218</u>
	<u>20,000</u>
926	12,505
	1,110
<u>926</u>	<u>14,017</u>
	<u>27,632</u>
<u>65,441</u>	<u>240,850</u>
	20,559
	1,689,126
	26,484
13,617	97,880
	205,444
<u>(12,829)</u>	<u>(1,769,690)</u>
<u>788</u>	<u>269,803</u>
<u>788</u>	<u>269,803</u>
<u>\$ 66,229</u>	<u>\$ 510,653</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007

=====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 5,023	\$
321	Accrued wage/payroll taxes payable	2,119	
333	Accounts payable-other government	5,232	
341	Tenant security deposits	5,342	
342	Deferred revenues	914	
347	Interprogram due to		
		<hr/>	<hr/>
310	Total current liabilities	<u>18,630</u>	<hr/>
300	Total liabilities	<u>18,630</u>	<hr/>
	Net Assets:		
508.1	Invested in capital assets	<u>269,015</u>	<hr/>
508	Total invested in capital assets	269,015	
512.1	Unrestricted net assets	<u>156,779</u>	<hr/>
513	Total Net Assets	<u>425,794</u>	<hr/>
600	Total Liabilities and Net Assets	<u>\$ 444,424</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 516	\$ 5,539
	2,119
	5,232
	5,342
	914
<u>14,017</u>	<u>14,017</u>
<u>14,533</u>	<u>33,163</u>
<u>14,533</u>	<u>33,163</u>
<u>788</u>	<u>269,803</u>
788	269,803
<u>50,908</u>	<u>207,687</u>
<u>51,696</u>	<u>477,490</u>
<u>\$ 66,229</u>	<u>\$ 510,653</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007

FDS Line Item No.		C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 73,343	\$
704	Tenant revenue-other	<u>1,731</u>	<u> </u>
705	Total tenant revenue	75,074	
706	HUD PHA grants	74,259	51,918
711	Investment income-unrestricted	4,736	
714	Fraud recovery		
715	Other income	2,411	
716	Gain/loss on sale of fixed assets	<u>(504)</u>	<u> </u>
700	Total revenue	<u>155,976</u>	<u>51,918</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	45,906	
912	Auditing fees	1,305	
915	Employee benefit contributions -administrative	15,066	
916	Other operating-administrative	9,766	
	Tenant Services:		
924	Tenant services-other	1,256	
	Utilities:		
931	Water	10,087	
932	Electricity	3,333	
933	Gas	5,829	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	19,763	
942	Ordinary maint & oper-mat'ls & other	9,644	
943	Ordinary maint & oper-contract costs	14,977	
945	Employee benefit contributions	20,555	
	General expenses:		
961	Insurance premiums	10,738	
963	Payments in lieu of taxes	5,232	
964	Bad debt-tenant rents	<u>(50)</u>	<u> </u>
969	Total operating expenses	<u>173,407</u>	<u> </u>
970	Excess operating revenue over operating expenses	<u>(17,431)</u>	<u>51,918</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 73,343
	<u>1,731</u>
	75,074
486,461	612,638
4,284	9,020
	2,411
20	20
	(<u>504</u>)
<u>490,765</u>	<u>698,659</u>
32,203	78,109
1,595	2,900
14,814	29,880
16,270	26,036
	1,256
	10,087
	3,333
	5,829
	19,763
	9,644
	14,977
	20,555
	10,738
	5,232
	(<u>50</u>)
<u>64,882</u>	<u>238,289</u>
<u>425,883</u>	<u>460,370</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2007

=====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>91,985</u>	<u> </u>
	Total other expenses	<u>91,985</u>	<u> </u>
900	Total expenses	<u>265,392</u>	<u> </u>
	Other Financing Sources(Uses):		
1001	Operating transfers in(out)	<u>51,918</u>	<u>(51,918)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(57,498)	
1103	Beginning Net Assets	441,589	41,703
1104	Prior period adjustments, equity transfers and correction of errors	<u>41,703</u>	<u>(41,703)</u>
	Ending Net Assets	<u>\$ 425,794</u>	<u>\$ </u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
466,886	466,886
<u>468</u>	<u>92,453</u>
<u>467,354</u>	<u>559,339</u>
<u>532,236</u>	<u>797,628</u>
(41,471)	(98,969)
93,167	576,459
<u>\$ 51,696</u>	<u>\$ 477,490</u>

**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
Cheboygan Housing Commission
Cheboygan, Michigan

I have audited the financial statements of the business-type activities of Cheboygan Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 9, 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 operation that I consider to be material weaknesses.

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*
Cheboygan Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated November 9, 2007.

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.

Sary E. Tardiff, CPA, PC

November 9, 2007

**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
Cheboygan Housing Commission
Cheboygan, Michigan

Compliance

I have audited the compliance of Cheboygan 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 March 31, 2007. 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.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Cheboygan Housing Commission
Page Two

Compliance (continued)

As described in item 07-1 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, and several special tests and provisions that are applicable, in our opinion, for the Housing Commission, to comply with requirements applicable to the Housing Choice Voucher 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 March 31, 2007.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 07-1.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Cheboygan Housing Commission
Page Three

Internal Control Over Compliance (continued)

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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. However, of the reportable conditions described above, I consider item 07-1 to be a material weakness.

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.

Bary E. Landell, CPA, PC

November 9, 2007

CHEBOYGAN HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
March 31, 2007

=====

The prior audit report for the fiscal year ended March 31, 2007 contained no audit findings, but HUD did elevate advisory comments made in a separate letter to findings. The Housing Commission has resolved all of the prior audit findings with HUD, therefore, the prior audit findings are cleared.

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2007

=====

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

- 1. Type of Auditor's Report issued: Unqualified
- 2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Reportable condition(s) identified that are considered to be material weaknesses? None reported
- 3. Noncompliance material to financial statements noted? No

Federal Awards:

- 1. Internal control over major programs:
 - a. Material weakness(es) identified? Yes
 - b. Reportable condition(s) identified that are not considered to be material weaknesses? Yes
- 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 No

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850a	Low Rent Public Housing	\$ 74,259	No	O	N/A	N/A
14.872	Capital Fund Program	51,918	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>486,461</u>	Yes	E,N	N/A	07-1
	Total	<u>\$ 612,638</u>				

- 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.

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007

=====

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS

Housing Choice Voucher Program CFDA No. 14.871

Finding Item 07-1: Year Ended March 31, 2007

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the voucher or if the program is being run correctly without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We started with the fifth file and selected every sixteenth one after that until a total of seven files were selected to be tested from an Ad-hoc Tenant Report provided by the Cheboygan Housing Commission. We selected seven tenant files to test from a population of one hundred sixteen tenant files to select from.

Auditor's Recommendation:

It is recommended that the staff obtain information on tenant assets and expenses and document the process in the tenant file. The staff should then obtain verifications of these expenses and assets. Whenever possible, these should be independent third party written verifications.

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

It is recommended that the Housing Commission obtain properly completed 214 (citizenship) declaration forms, social security number documentation and photo identification for all tenants where they are required and missing from the tenant files.

Auditee's Response: We have been obtaining the missing documentation at the annual recertification. It should be noted that the percentage of exceptions has improved since last year.

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 March 31, 2007

=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program CFDA No. 14.871

Finding Item 07-1 (continued): Year Ended March 31, 2007

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

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	0
5. Incorrect Verification of Assets	0
6. Inspection Report missing for fiscal year or was incorrect	1
7. Lease missing or incorrect	1
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	4
10. Copy of Proof of Social Security Number Verification missing	4
11. Annual Review not done for fiscal year or not documented	0
12. Worksheet for HUD-50058 missing or incorrect	0
13. Notice of Rent Adjustment missing or incorrect	0
14. Criminal Background Check not done, not documented, or it was in the file	3
15. Declaration of 214 Status missing or incorrect	3
16. Lead Based Paint Disclosure missing or incorrect	1
17. Check for Previous Eviction from Public Housing not done or incorrect	0
18. Request for Tenancy Approval not done or incorrect	2
19. Voucher not in file or it was incorrect	1
20. HAP Contract missing or incorrect	2
21. HAP Tenancy Addendum missing	2
22. Rent Reasonableness Test missing or incorrect	2
23. Inspection-Life Threatening Corrections Made>24 Hours	1
24. Inspection-NonLife Threatening Corrections Made>30 Days or Past Extension	1
25. Proper Action not taken if 24 or 25 was violated	1
26. Annual Family Composition Review missing or incorrect	<u>7</u>
Total	<u>36</u>

Out of a possible 182, there were 36 exceptions from this test. This represents an exception rate of 19.78%.

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 March 31, 2007

=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program CFDA No. 14.871

Finding Item 07-1 (continued): Year Ended March 31, 2007

Seven tenant files were looked at and applicable to this review.

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V0074-01	x					x		x	
2	V0064-03						x		x	
3	V0039-02								x	
4	0044-01									
5	0109-04	x					x		x	
6	0075-01	x					x		x	
7	0092-02								x	
Number of Hits		<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>6</u>	<u>0</u>
Percentage of Hits		<u>43%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>57%</u>	<u>0%</u>	<u>86%</u>	<u>0%</u>

LEGEND

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files 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 tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

CHEBOYGAN HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2007

=====

<u>Electronic Line Item Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
	(1)		
114	Cash-tenant security deposits	\$ 5,342	
111	Cash-unrestricted		\$ 5,342

CHEBOYGAN HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2007

CHEBOYGAN HOUSING COMMISSION
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MARCH 31, 2007

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Cheboygan Housing Commission

I have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated November 9, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 7 showing the audit adjusting journal entry).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report.

I have one disagreement with management. I believe that if I have a compliance finding it needs to be reported in the audit report as a reportable finding and not as a recommendation in the Management Advisory Comments Report, even if we didn't discover the error in a prior year.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bary Landell, CPA, PC

November 9, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Cheboygan Housing Commission

I have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated November 9, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

November 9, 2007

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
March 31, 2007

=====

Copy of Invoices

During my testing of expenditures we discovered that out of 40 disbursements tested that four(4) did not have the original invoice attached to the check copy.

I recommend that the Housing Commission pay from an original invoice, if possible.

Rent Reasonable Study

During testing of the tenant files for the Housing Choice Voucher program and through interviews, it was discovered that there was not a rent reasonable study done since 2004, which is in opposition to the Administrative Plan which requires the study to be done annually.

We recommend that the Housing Commission, either perform the rent reasonable study on an annual basis or change the Administrative Plan.

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(CONTINUED)

March 31, 2007

=====

Public Housing Program Tenant File Testing

Since the Low Rent Program was not a major program we didn't select the minimum number of tenant files to test (i.e. five(5)), but did test one of the tenant files.

We found the following errors in the documentation of the tenant file:

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	0
5. Incorrect Verification of Assets	0
6. Inspection Report for fiscal year is missing or incorrect	1
7. Lease missing or incorrect	0
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	0
10. Copy of Proof of Social Security Number Verification missing	0
11. Worksheet for HUD-50058 missing or incorrect	0
12. Flat Rent/Income Based Rent Choice missing or incorrect	0
13. Notice of Rent Adjustment missing or incorrect	0
14. Criminal Background Check not done, not documented, or it was in the file	0
15. Declaration of 214 Status missing or incorrect	1
16. Check for Previous Eviction from Public Housing not done or incorrect	0
17. Annual Family Composition Review missing or incorrect	0
18. Annual Review missing or incorrect	<u>0</u>
Total	<u>2</u>

Out of a possible 18, there were 2 exceptions from this test. This represents an exception rate of 11.11%.

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

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
 (CONTINUED)

March 31, 2007

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Public Housing Program Tenant File Testing (continued)

One tenant file was looked at and applicable to this review.

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	P-001-0025-12	___	___	___	___	___	___	___	<u>x</u>	___
Number of Hits		<u>0</u>	<u>1</u>	<u>0</u>						
Percentage of Hits		<u>0%</u>	<u>100%</u>	<u>0%</u>						

LEGEND

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files 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 tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

CHEBOYGAN HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2007

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<u>FDS</u>			<u>Debit</u>	<u>Credit</u>
<u>Line Number</u>	<u>Account Name</u>			
LOW RENT PROGRAM:				
		(1)		
114	Cash-tenant security deposits		\$ 5,342	
111	Cash-unrestricted			\$ 5,342