

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 Sault Ste. Marie Housing Commission	County Chippewa
Fiscal Year End 3/31/2007	Opinion Date 9/4/2007	Date Audit Report Submitted to State 9/10/2007	

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).

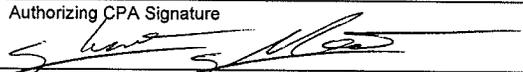
YES NO

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"/>	N/A	
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State Zip MI 49801
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	License Number 263063

SAULT STE. MARIE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended March 31, 2007

SAULT STE. MARIE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Sault Ste. Marie Housing Commission, a component unit of the City of Sault Ste. Marie, Michigan, as of and for the year ended March 31, 2007 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the 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 we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sault Ste. Marie Housing Commission 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2007 on our consideration of the Sault Ste. Marie Housing Commission's internal control over financial reporting and our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sault Ste. Marie Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 Sault Ste. Marie Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 4, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Sault Ste. Marie Housing Commission's financial performance provides an overview of the financial activities for the year ended March 31, 2007. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$7,437,955 for the year ended March 31, 2007 compared to \$7,441,719 for the year ended March 31, 2006.
- The Commission's operating revenues totaled \$1,656,404 for the year ended March 31, 2007 and \$1,391,424 for the year ended March 31, 2006, while operating expenses totaled \$1,944,687 for the year ended March 31, 2007 and \$1,974,110 for the year ended March 31, 2006.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets for the year ended March 31, 2007 decreased \$(3,764) from March 31, 2006.

Table 1

NET ASSETS

	March 31,	
	2007	2006
Assets		
Current assets	\$ 1,294,944	\$ 1,038,760
Capital assets (net)	<u>6,392,798</u>	<u>6,681,430</u>
Total assets	<u>7,687,742</u>	<u>7,720,190</u>
Liabilities		
Current liabilities	219,225	245,831
Non-current liabilities	<u>30,562</u>	<u>32,640</u>
Total liabilities	<u>249,787</u>	<u>278,471</u>
Net Assets		
Invested in capital assets, net of related debt	6,392,798	6,681,430
Unrestricted	<u>1,045,157</u>	<u>760,289</u>
Net Assets	<u>\$ 7,437,955</u>	<u>\$ 7,441,719</u>

Net assets of the Commission stood at \$7,437,955 for the year ended March 31, 2007 compared to \$7,441,719 for the year ended March 31, 2006. Unrestricted net business assets were \$1,045,157 for the year ended March 31, 2007 compared to \$760,289 for the year ended March 31, 2006. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The increase in current assets was largely due to an increase in cash of \$286,446.

Table 2**CHANGE IN NET ASSETS**

	Year Ended March 31,	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 619,244	\$ 665,736
Program grants and subsidies	996,632	881,702
General revenues:		
Other revenues	285,668	190,898
Unrestricted investment earnings	<u>39,379</u>	<u>27,534</u>
Total revenues	1,940,923	1,765,870
Program Expenses:		
Operating expenses	<u>1,944,687</u>	<u>1,974,110</u>
Change in net assets	(3,764)	(208,240)
Net assets - beginning of period	<u>7,441,719</u>	<u>7,649,959</u>
Net assets - end of period	<u>\$ 7,437,955</u>	<u>\$ 7,441,719</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$1,940,923 for the year ended March 31, 2007 compared to \$1,765,870 for the year ended March 31, 2006. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The decrease in operating expenses is largely due to an increase of \$49,488 in administrative expenses, an increase of \$17,269 in tenant services, a decrease of \$46,569 in utilities, a decrease of \$40,737 in maintenance expenses, and an increase of \$10,590 in general expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$17,118,423 invested in a variety of capital assets including land, equipment and buildings at March 31, 2007 compared to \$16,838,819 at March 31, 2006.

Table 3

CAPITAL ASSETS Business - Type Activity

	<u>March 31,</u>	
	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 2,925,502	\$ 2,925,502
Building and improvements	13,629,115	13,295,652
Equipment	493,531	466,613
Construction-in-progress	<u>70,275</u>	<u>151,052</u>
Total	17,118,423	16,838,819
Less accumulated depreciation	<u>(10,725,625)</u>	<u>(10,157,389)</u>
NET CAPITAL ASSETS	<u>\$ 6,392,798</u>	<u>\$ 6,681,430</u>

The Commission invested \$280,983 in capital assets during the year ended March 31, 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2007/2008. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2007/2008 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Patricia Shimmens, at 608 Pine Street, Sault Ste. Marie, Michigan 49783, or call 906-635-5841.

SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

March 31, 2007

CURRENT ASSETS:	
Cash and equivalents	\$ 668,599
Accounts receivable	26,595
Investments	589,708
Prepaid expenses	<u>10,042</u>
TOTAL CURRENT ASSETS	<u>1,294,944</u>
NONCURRENT ASSETS:	
Capital assets	17,118,423
Less accumulated depreciation	<u>(10,725,625)</u>
NET CAPITAL ASSETS	<u>6,392,798</u>
TOTAL ASSETS	<u>7,687,742</u>
CURRENT LIABILITIES:	
Accounts payable	39,422
Accrued liabilities	<u>179,803</u>
TOTAL CURRENT LIABILITIES	219,225
NONCURRENT LIABILITIES	<u>30,562</u>
TOTAL LIABILITIES	<u>249,787</u>
NET ASSETS:	
Investment in capital assets, net of related debt	6,392,798
Unrestricted net assets	<u>1,045,157</u>
NET ASSETS	<u>\$ 7,437,955</u>

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The accompanying notes to financial statements are an integral part of this statement.



SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2007

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
<u>FUNCTIONS/PROGRAMS</u>	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	<u>\$ 1,944,687</u>	<u>\$ 619,244</u>	<u>\$ 1,037,160</u>	<u>\$ 245,140</u>	<u>\$ (43,143)</u>
General revenues:					
Unrestricted investment earnings					<u>39,379</u>
Total general revenues					<u>39,379</u>
Changes in net assets					<u>(3,764)</u>
NET ASSETS, beginning of year					<u>7,441,719</u>
NET ASSETS, end of year					<u>\$ 7,437,955</u>

The accompanying notes to the financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended March 31, 2007

OPERATING REVENUES:	
Tenant revenue	\$ 619,244
Program grants-subsidies	751,492
Other operating income	<u>285,668</u>
 TOTAL OPERATING REVENUES	 <u>1,656,404</u>
OPERATING EXPENSES:	
Administration	397,540
Tenant services	91,144
Utilities	282,679
Maintenance	308,326
General	99,375
Other operating	35,688
Housing assistance payments	160,321
Depreciation	<u>569,614</u>
 TOTAL OPERATING EXPENSES	 <u>1,944,687</u>
 OPERATING (LOSS)	 <u>(288,283)</u>
NONOPERATING REVENUES AND (EXPENSES):	
Capital grants	245,140
Interest income	<u>39,379</u>
 TOTAL NONOPERATING REVENUES AND (EXPENSES)	 <u>284,519</u>
 CHANGE IN NET ASSETS	 <u>(3,764)</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>7,441,719</u>
 NET ASSETS, END OF YEAR	 <u>\$ 7,437,955</u>

The accompanying notes to financial statements are an integral part of this statement.



SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF CASH FLOWS
Proprietary Fund**

For the Year Ended March 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 626,376
Cash received from grants and subsidies	802,014
Cash payments to suppliers for goods and services	(859,977)
Cash payments for wages and related benefits	(511,796)
Cash payments for payment in lieu of taxes	(27,781)
Cash received from other revenues	<u>285,668</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>314,504</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants	245,140
Acquisition of capital assets	<u>(280,983)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(35,843)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(31,548)
Investment income	<u>39,333</u>
NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>7,785</u>
NET INCREASE IN CASH AND EQUIVALENTS	286,446
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>382,153</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 668,599</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (288,283)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	569,614
Changes in assets and liabilities:	
Decrease (Increase) in receivables	57,654
Decrease (Increase) in prepaid expenses	4,202
Increase (Decrease) in accounts payable	(47,379)
Increase (Decrease) in accrued liabilities	<u>18,696</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 314,504</u>

The accompanying notes to financial statements are an integral part of this statement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Sault Ste. Marie Housing Commission (Commission) was formed by the City of Sault Ste. Marie, Michigan under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission manages 260 units of low rent public housing and 43 section 8 vouchers of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #39, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Sault Ste. Marie Housing Commission, but the Sault Ste. Marie Commission is a component unit of the City of Sault Ste. Marie, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using 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. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission’s cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission’s policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

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

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing 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. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on April 1st. The operating budget includes proposed expenses and the means of financing them. Prior to March 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31st.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 150
Checking accounts	311,301
Savings and money market accounts	<u>357,148</u>
TOTAL	<u>\$ 668,599</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of March 31, 2007, the Commission held cash and equivalents in excess of F.D.I.C. insurance in the amount of \$447,891 which were fully collateralized by governmental securities having a fair market value of \$907,442 at March 31, 2007.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>
Certificates of Deposit	<u>\$589,708</u>	<u>\$539,708</u>	<u>\$50,000</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of March 31, 2007, the Commission held investments in excess of F.D.I.C. insurance in the amount of \$318,526 which were fully collateralized by governmental securities having a fair market value of \$907,442 at March 31, 2007.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Edward Jones, Sault Ste. Marie, MI	\$ 88,865
Soo Co-op Credit Union, Sault Ste. Marie, MI	32,317
National City Bank, Sault Ste. Marie, MI	50,000
The Huntington National Bank, Sault Ste. Marie, MI	<u>418,526</u>
Total	<u>\$589,708</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of March 31, 2007 is as follows:

	Balance 4-1-06	Additions	Deletions	Balance 3-31-07
Land and improvements	\$ 2,925,502	\$ -	\$ -	\$ 2,925,502
Building and improvements	13,295,652	333,463	-	13,629,115
Equipment	466,613	28,296	(1,378)	493,531
Construction-in-progress	<u>151,052</u>	<u>245,140</u>	<u>(325,917)</u>	<u>70,275</u>
	16,838,819	<u>\$ 606,899</u>	<u>\$ (327,295)</u>	17,118,423
Accumulated depreciation	<u>(10,157,389)</u>	<u>\$ (569,614)</u>	<u>\$ 1,378</u>	<u>(10,725,625)</u>
Net capital assets	<u>\$ 6,681,430</u>			<u>\$ 6,392,798</u>

Depreciation expense for the year was \$569,614.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE D - RISK MANAGEMENT

The 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. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended March 31, 2007 totaled \$1,940,923 of which \$996,632 or 51.3% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - PENSION PLAN

Plan Description

Sault Ste. Marie Housing Commission participates in the City of Sault Ste. Marie's pension plan. The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE G – PENSION PLAN (Continued)

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 6.71% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$ 119,400	100%	\$ -
6/30/2005	143,911	100%	-
6/30/2006	135,738	100%	-



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

(Continued)

NOTE G – PENSION PLAN (Continued)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) Entry Age (b)</u>	<u>Over- funded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (ab)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)c)</u>
12/31/2001	17,481,855	15,814,445	(1,667,410)	111%	3,468,584	0%
12/31/2002	17,503,766	17,447,662	(56,104)	100%	3,670,545	0%
12/31/2003	18,223,939	18,105,810	(118,129)	101%	3,743,216	0%
12/31/2004	18,890,155	19,779,167	889,012	96%	3,545,698	25%
12/31/2005	19,428,237	19,949,324	(521,087)	97%	3,577,745	15%

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**SUPPLEMENTAL
INFORMATION**



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>ASSETS</u>						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 74,313	\$ 494,549	\$ 99,737	\$ -	\$ 668,599
100	Total cash	74,313	494,549	99,737	-	668,599
Accounts and notes receivables:						
122	Accounts receivable- HUD other projects	-	-	-	6,022	6,022
124	Accounts receivable- Other government	9,274	-	-	-	9,274
125	Accounts receivable- Miscellaneous	2,290	-	-	-	2,290
126	Accounts receivable- Tenants - dwelling rents	-	9,971	-	-	9,971
126.1	Allowance for doubtful accounts - dwelling rents	-	(3,807)	-	-	(3,807)
129	Accrued interest receivable	-	2,845	-	-	2,845
120	Total receivables, net of allowances for doubtful accounts	11,564	9,009	-	6,022	26,595
Other current assets:						
131	Investments	-	589,708	-	-	589,708
142	Prepaid expenses	-	9,924	118	-	10,042
144	Interprogram due from	-	20,534	-	-	20,534
150	TOTAL CURRENT ASSETS	85,877	1,123,724	99,855	6,022	1,315,478



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:						
Fixed assets:						
161	Land	-	460,439	-	-	460,439
162	Buildings	-	13,303,199	-	325,917	13,629,116
163	Furniture, equipment & machinery - dwellings	-	183,866	-	-	183,866
164	Furniture, equipment & machinery - administration	19,617	279,532	10,515	-	309,664
165	Leasehold improvements	-	2,465,063	-	-	2,465,063
166	Accumulated depreciation	(5,991)	(10,704,160)	(7,326)	(8,148)	(10,725,625)
167	Construction in progress	-	-	-	70,275	70,275
160	Total fixed assets, net of accumulated depreciation	13,626	5,987,939	3,189	388,044	6,392,798
180	TOTAL NONCURRENT ASSETS	13,626	5,987,939	3,189	388,044	6,392,798
190	TOTAL ASSETS	\$ 99,503	\$ 7,111,663	\$ 103,044	\$ 394,066	\$ 7,708,276

See accompanying notes to financial statements



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
		\$ 777	\$ 38,445	\$ 200	\$ -	\$ 39,422
312	Accounts payable ≤ 90 days	-	39,114	-	-	39,114
321	Accrued wages / payroll taxes payable	1,301	15,702	972	-	17,975
322	Accrued compensated absences - current portion	-	30,779	-	-	30,779
333	Accounts payable - other government	-	73,163	-	-	73,163
341	Tenant security deposits	-	18,772	-	-	18,772
342	Deferred revenues	-	-	-	-	-
347	Interprogram due from	12,946	-	1,566	6,022	20,534
310	TOTAL CURRENT LIABILITIES	15,024	215,975	2,738	6,022	239,759
354	Accrued compensated absences - non current	1,412	27,927	1,223	-	30,562
350	TOTAL NONCURRENT LIABILITIES	1,412	27,927	1,223	-	30,562
300	TOTAL LIABILITIES	16,436	243,902	3,961	6,022	270,321

LIABILITIES AND NET ASSETS

LIABILITIES:

CURRENT LIABILITIES

- 312 Accounts payable ≤ 90 days
- 321 Accrued wages / payroll taxes payable
- 322 Accrued compensated absences - current portion
- 333 Accounts payable - other government
- 341 Tenant security deposits
- 342 Deferred revenues
- 347 Interprogram due from

TOTAL CURRENT LIABILITIES

- 354 Accrued compensated absences - non current

TOTAL NONCURRENT LIABILITIES

TOTAL LIABILITIES

See accompanying notes to financial statements



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>						
703	Net tenant rental revenue	-	619,244	-	-	619,244
705	Total tenant revenue	-	619,244	-	-	619,244
706	HUD PHA grants	-	493,714	162,891	94,887	751,492
706.1	Capital grants	-	-	-	245,140	245,140
708	Other government grants	107,409	-	-	-	107,409
711	Investment income - unrestricted	281	38,976	122	-	39,379
714	Fraud recovery	-	-	1,624	-	1,624
715	Other revenue	75,091	101,544	-	-	176,635
700	TOTAL REVENUE	182,781	1,253,478	164,637	340,027	1,940,923
<u>EXPENSES</u>						
Administrative:						
911	Administrative salaries	12,165	142,920	11,403	41,994	208,482
912	Auditing fees	329	4,042	329	-	4,700

See accompanying notes to financial statements



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
914	Compensated absences	305	4,945	374	-	5,624
915	Employee benefit contributions- administrative	3,495	44,935	3,546	12,153	64,129
916	Other operating- administrative	30,123	77,933	6,549	-	114,605
	Total Administrative	46,417	274,775	22,201	54,147	397,540
	Tenant services:					
921	Tenant services - salaries	55,019	5,442	-	-	60,461
923	Employee benefit contributions- tenant services	22,212	1,896	-	-	24,108
924	Tenant services - other	6,120	455	-	-	6,575
	Total Tenant Services	83,351	7,793	-	-	91,144
	Utilities:					
931	Water	-	94,913	-	-	94,913
932	Electricity	-	27,640	-	-	27,640
933	Gas	-	160,126	-	-	160,126
	Total Utilities	-	282,679	-	-	282,679
	Maintenance:					
941	Ordinary maintenance and operations - labor	-	115,304	-	-	115,304



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
942	Ordinary maintenance and operations - materials & other	3,237	36,861	-	-	40,098
943	Ordinary maintenance and operations - contract costs	-	105,372	-	-	105,372
945	Employee benefit contributions- ordinary maintenance	-	47,552	-	-	47,552
	Total Maintenance	3,237	305,089	-	-	308,326
	General expenses:					
961	Insurance premiums	-	62,194	-	-	62,194
963	Payments in lieu of taxes	-	30,779	-	-	30,779
964	Bad debt - tenant rents	-	6,402	-	-	6,402
	Total General Expenses	-	99,375	-	-	99,375
969	TOTAL OPERATING EXPENSES	133,005	969,711	22,201	54,147	1,179,064
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	49,776	283,767	142,436	285,880	761,859



SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2007

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
971	Extraordinary maintenance	-	35,688	-	-	35,688
973	Housing assistance payments	55,067	-	105,254	-	160,321
974	Depreciation expense	3,067	556,391	2,008	8,148	569,614
900	TOTAL EXPENSES	191,139	1,561,790	129,463	62,295	1,944,687
1001	Operating transfers in	-	40,740	-	-	40,740
1002	Operating transfers out	-	-	-	(40,740)	(40,740)
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	40,740	-	(40,740)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (8,358)	\$ (267,572)	\$ 35,174	\$ 236,992	\$ (3,764)
MEMO account information						
1103	Beginning equity	\$ 91,425	\$ 6,728,746	\$ 63,909	\$ 557,639	\$ 7,441,719
1104	Prior Period Adjustments, Equity Transfers	-	\$ 406,587	-	\$ (406,587)	-
1113	Maximum Annual Contributions Commitment (Per ACC)	-	-	\$ 162,891	-	\$ 162,891
1115	Contingency Reserve, ACC Program Reserve	-	-	-	-	-
1116	Total Annual Contributions Available	-	-	\$ 162,891	-	\$ 162,891
1120	Unit months available	-	3,120	510	-	3,630
1121	Number of unit months leased	-	3,113	510	-	3,623
1117	Administrative fee equity	-	-	\$ 33,154	-	\$ 33,154
1118	Housing assistance payments equity	-	-	\$ 65,929	-	\$ 65,929

See accompanying notes to financial statements

SAULT STE. MARIE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended March 31, 2007

SAULT STE. MARIE HOUSING COMMISSION

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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



**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 Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the financial statements of Sault Ste. Marie Housing Commission as of and for the year ended March 31, 2007, and have issued our report thereon dated September 4, 2007. We conducted our 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 our audit, we considered Sault Ste. Marie Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sault Ste. Marie Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sault Ste. Marie Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

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



**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***

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 4, 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 Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of Sault Ste. Marie 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. Sault Ste. Marie 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 Sault Ste. Marie Housing Commission's management. Our responsibility is to express an opinion on Sault Ste. Marie Housing Commission's compliance based on our audit.

We conducted our 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 we 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 Sault Ste. Marie Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sault Ste. Marie Housing Commission's compliance with those requirements.

In our opinion Sault Ste. Marie 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 Sault Ste. Marie 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 our audit, we considered Sault Ste. Marie 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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sault Ste. Marie Housing Commission's internal control over compliance.



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(Continued)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Sault Ste. Marie Housing Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Sault Ste. Marie Housing Commission's response and, accordingly, we express no opinion on it.

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

Anderson Tackman & Co. P.C.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 4, 2007



SAULT STE. MARIE HOUSING COMMISSION

For the Year Ended March 31, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass <u>Through Grantor</u>	Federal CFDA <u>Number</u>	Award <u>Amount</u>	Expensed as of <u>3-31-06</u>	3-31-07 Federal <u>Expenditures</u>
Operating Subsidy	14.850	<u>\$ 493,714</u>	\$ -	<u>\$ 493,714</u>
Section 8 Rental Voucher	14.871	<u>\$ 162,891</u>	\$ -	<u>\$ 162,891</u>
Capital Funding	14.872			
501-05		\$ 407,397	\$ 162,974	\$ 244,423
501-06		<u>356,671</u>	-	<u>95,604</u>
		<u>\$ 764,068</u>	<u>\$ 162,974</u>	<u>\$ 340,027</u>
Total Department of Housing and Urban Development				<u>\$ 996,632</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 996,632</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



See accompanying notes to the schedule of expenditures of federal awards.

SAULT STE. MARIE HOUSING COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended March 31, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.



SAULT STE. MARIE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended March 31, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Sault Ste. Marie Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Sault Ste. Marie Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Sault Ste. Marie Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Sault Ste. Marie Housing Commission.
7. The programs tested as major programs included:
 - A. Capital Funding – CFDA 14.872
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Sault Ste. Marie Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior findings or questioned costs.

