

POTTERVILLE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended September 30, 2007

POTTERVILLE 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
Potterville Housing Commission
Potterville, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Potterville Housing Commission, component unit of the City of Potterville, Michigan, as of and for the year ended September 30, 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 misstatement. 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 Potterville Housing Commission as of September 30, 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 April 1, 2008 on our consideration of the Potterville 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 basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We 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, 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 Potterville 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 Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, if fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson Tackman & Co. PLC

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

April 1, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Potterville Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 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 \$486,778 at September 30, 2007 compared to \$476,807 at September 30, 2006.
- The Commission's operating revenues totaled \$240,716 for September 30, 2007 and \$214,534 for September 30, 2006, while operating expenses totaled \$239,977 for September 30, 2007 and \$246,733 for September 30, 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, and the Statement of Revenues, Expenses, and Change in Net Assets 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 at September 30, 2007 increased \$9,971 from September 30, 2006.

Table 1

NET ASSETS

	Assets	
	September 30,	
	2007	2006
Current assets	\$ 183,163	\$ 144,236
Capital assets (net)	<u>315,443</u>	<u>345,028</u>
Total assets	<u>498,606</u>	<u>489,264</u>
Liabilities		
Current liabilities	<u>11,828</u>	<u>12,457</u>
Total liabilities	<u>11,828</u>	<u>12,457</u>
Net Assets		
Invested in capital assets, net of related debt	315,443	345,028
Unrestricted	<u>171,335</u>	<u>131,779</u>
Net Assets	<u>\$ 486,778</u>	<u>\$ 476,807</u>

Net assets of the Commission stood at \$486,778 at September 30, 2007 compared to \$476,807 at September 30, 2006. Unrestricted net business assets were \$171,335 compared to \$131,779 at September 30, 2006. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The increase in current assets was primarily due to a \$28,129 increase in cash and investments and a \$5,050 increase in accounts receivable due from HUD.

Table 2

CHANGE IN NET ASSETS

	Year Ended September 30,	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 51,275	\$ 48,240
Program grants and subsidies	192,905	217,086
General revenues:		
Other revenues	3,869	1,309
Unrestricted investment earnings	<u>1,899</u>	<u>856</u>
 Total revenues	 <u>249,948</u>	 <u>267,491</u>
 Program Expenses:		
Operating expenses	<u>(239,977)</u>	<u>(246,733)</u>
 Change in net assets	 9,971	 20,758
 Net assets - beginning of period	 <u>476,807</u>	 <u>456,049</u>
 Net assets - end of period	 <u>\$ 486,778</u>	 <u>\$ 476,807</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$249,948 compared to \$267,491 during September 30, 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 decreased 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 was primarily due to a \$10,008 decrease in administrative salaries and related benefits.

CAPTIAL ASSETS

Capital Assets

The Commission had \$1,202,806 invested in a variety of capital assets including land, equipment and buildings at September 30, 2007 compared to \$1,197,712 at September 30, 2006.

Table 3

CAPITAL ASSETS Business - Type Activity

	September 30,	
	2007	2006
Land	\$ 26,338	\$ 26,338
Building and improvements	1,132,058	1,049,257
Equipment	44,410	46,649
Construction in progress	-	75,468
Total	1,202,806	1,197,712
Less accumulated depreciation	(887,363)	(852,684)
NET CAPITAL ASSETS	\$ 315,443	\$ 345,028

The Commission invested \$7,720 in capital assets during the year ended September 30, 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 management, Bruce Johnston, at 210 East Main, Pottersville, Michigan 48876, or call 517-645-7076.



POTTERVILLE HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

September 30, 2007

CURRENT ASSETS:	
Cash and equivalents	\$ 121,642
Accounts receivable	22,040
Investments	36,530
Prepaid expenses	<u>2,951</u>
TOTAL CURRENT ASSETS	<u>183,163</u>
NONCURRENT ASSETS:	
Capital assets	1,202,806
Less accumulated depreciation	<u>(887,363)</u>
NET CAPITAL ASSETS	<u>315,443</u>
TOTAL ASSETS	<u>498,606</u>
CURRENT LIABILITIES:	
Accounts payable	4,057
Accrued liabilities	<u>7,771</u>
TOTAL LIABILITIES	<u>11,828</u>
NET ASSETS:	
Investment in capital assets, net of related debt	315,443
Unrestricted net assets	<u>171,335</u>
NET ASSETS	<u>\$ 486,778</u>

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

POTTERVILLE HOUSING COMMISSION

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

For the Year Ended September 30, 2007

OPERATING REVENUES:

Tenant revenue	\$ 51,275
Program grants-subsidies	185,572
Other income	<u>3,869</u>

TOTAL OPERATING REVENUES 240,716

OPERATING EXPENSES:

Administration	39,602
Tenant services	88
Utilities	18,694
Maintenance	34,145
General	14,910
Other expenses	500
Housing assistance payments	94,734
Depreciation	<u>37,304</u>

TOTAL OPERATING EXPENSES 239,977

OPERATING INCOME 739

NONOPERATING REVENUES AND (EXPENSES):

Capital grants	7,333
Interest income	<u>1,899</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES): 9,232

CHANGE IN NET ASSETS 9,971

NET ASSETS, BEGINNING OF YEAR 476,807

NET ASSETS, END OF YEAR \$ 486,778

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

POTTERVILLE HOUSING COMMISSION

**STATEMENT OF CASH FLOWS
Proprietary Fund**

For the Year Ended September 30, 2007

OPERATING ACTIVITIES:

Cash received from customers	\$ 48,838
Cash received from grants and subsidies	185,572
Cash payments to suppliers for goods and services	(160,588)
Cash payments for wages and related benefits	(43,783)
Cash payments for payment in lieu of taxes	(2,315)
Other receipts	<u>3,869</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES 31,593

CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	2,283
Acquisition of capital assets	<u>(7,720)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (5,437)

INVESTING ACTIVITIES:

Purchase of investments	7,514
Investment income	<u>1,973</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES 9,487

NET INCREASE IN CASH AND EQUIVALENTS 35,643

CASH AND EQUIVALENTS, BEGINNING OF YEAR 85,999

CASH AND EQUIVALENTS, END OF YEAR \$ 121,642

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 739
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	37,304
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(5,405)
Decrease (Increase) in prepaid expenses	(416)
Increase (Decrease) in accounts payable	1,924
Increase (Decrease) in accrued liabilities	<u>(2,553)</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES \$ 31,593

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



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Potterville Housing Commission (Commission) was formed by the Potterville City Council under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the Village of Potterville.

The Commission manages 24 units of low rent public housing units and 25 housing choice 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 #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include 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 Potterville Housing Commission, but the Commission is a component unit of the City of Potterville, 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.



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows 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, and Statement of Revenues, Expenses and Change in Net Assets 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.



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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

Government-Wide Statements:

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

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



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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 October 1st. The operating budget includes proposed expenses and the means of financing them. Prior to September 30th, 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 September 30th.



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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	\$ 100
Checking accounts	112,266
Cash and equivalents	<u>9,276</u>
TOTAL	<u>\$ 121,642</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. State law does not require, and the Commission does not have a policy for, deposit custodial credit risk. As of September 30, 2007, the Commission held cash in excess of FDIC insurance limits in the amount of \$13,235.

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>
Certificates of Deposit	<u>\$36,530</u>	<u>\$36,530</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.



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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. State law does not require, and the Commission does not have a policy for, investment custodial credit risk. As of September 30, 2007, the Commission's investments were not exposed to credit risk, due to them being fully insured.

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. All of the Commission's investments are with the Independent Bank South of Potterville, Michigan.

NOTE C - CAPITAL ASSETS

A summary of capital assets as of September 30, 2007 is as follows:

	<u>Balance</u> <u>10-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-07</u>
Land	\$ 26,338	\$ -	\$ -	\$ 26,338
Building and improvements	1,049,257	82,801	-	1,132,058
Equipment	46,649	386	(2,625)	44,410
Construction in progress	<u>75,468</u>	<u>7,333</u>	<u>(82,801)</u>	<u>-</u>
	1,197,712	<u>\$ 90,520</u>	<u>\$ (85,426)</u>	1,202,806
Accumulated depreciation	<u>(852,684)</u>	<u>\$ (37,304)</u>	<u>\$ 2,625</u>	<u>(887,363)</u>
Net capital assets	<u>\$ 345,028</u>			<u>\$ 315,443</u>

Depreciation expense for the year was \$37,304.



POTTERVILLE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 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 September 30, 2007 totaled \$249,948 of which \$192,605 or 77.1% were 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.





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**SUPPLEMENTAL
INFORMATION**



**ANDERSON, TACKMAN
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POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash:					
111	Cash - unrestricted	\$ 33,197	\$ 88,445	\$ -	\$ 121,642
100	Total cash	33,197	88,445	-	121,642
122	Accounts Receivable - HUD	-	-	12,540	12,540
125	Accounts Receivable - miscellaneous	2,968	-	-	2,968
126	Accounts Receivable - dwelling rents	13,963	-	-	13,963
126.1	Allowance for doubtful accounts - dwelling rents	(8,032)	-	-	(8,032)
129	Accrued interest receivable	601	-	-	601
120	Total receivables, net of allowances for doubtful accounts	9,500	-	12,540	22,040
Other current assets:					
131	Investments - Unrestricted	36,530	-	-	36,530
142	Prepaid expenses and Other Assets	2,867	84	-	2,951
144	Interprogram due from	15,758	-	-	15,758
150	TOTAL CURRENT ASSETS	97,852	88,529	12,540	198,921

See accompanying notes to financial statements



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POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:					
Fixed assets:					
161	Land	26,338	-	-	26,338
162	Buildings	581,679	-	-	581,679
163	Furniture, equipment & machinery - dwellings	17,100	-	-	17,100
164	Furniture, equipment & machinery - administration	27,310	-	-	27,310
165	Leasehold improvements	467,578	-	82,801	550,379
166	Accumulated depreciation	(882,807)	-	(4,556)	(887,363)
160	Total fixed assets, net of accumulated depreciation	237,198	-	78,245	315,443
180	TOTAL NONCURRENT ASSETS	237,198	-	78,245	315,443
190	TOTAL ASSETS	\$ 335,050	\$ 88,529	\$ 90,785	\$ 514,364

See accompanying notes to financial statements



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

POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND NET ASSETS					
LIABILITIES:					
CURRENT LIABILITIES					
312	Accounts payable ≤ 90 days	\$ 3,211	\$ 846	\$ -	\$ 4,057
321	Accrued wages / payroll taxes payable	2,060	68	-	2,128
333	Accounts payable - other government	2,432	-	-	2,432
341	Tenant security deposits	2,894	-	-	2,894
342	Deferred revenues	317	-	-	317
347	Interprogram due to	-	3,218	12,540	15,758
310	TOTAL CURRENT LIABILITIES	<u>10,914</u>	<u>4,132</u>	<u>12,540</u>	<u>27,586</u>
354	Accrued compensated absences - non current	-	-	-	-
350	TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
300	TOTAL LIABILITIES	<u>10,914</u>	<u>4,132</u>	<u>12,540</u>	<u>27,586</u>

See accompanying notes to financial statements



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

POTTERVILLE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

September 30, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>NET ASSETS</u>					
508.1	Investment in capital assets, net of related debt	237,198	-	78,245	315,443
512.1	Unrestricted net assets	86,938	84,397	-	171,335
513	TOTAL NET ASSETS	324,136	84,397	78,245	486,778
600	TOTAL LIABILITIES AND NET ASSETS	\$ 335,050	\$ 88,529	\$ 90,785	\$ 514,364



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

POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>					
703	Net tenant rental revenue	\$ 51,275	\$ -	\$ -	\$ 51,275
704	Tenant revenue - other	-	-	-	-
705	Total tenant revenue	51,275	-	-	51,275
706	HUD PHA grants	40,753	139,674	5,145	185,572
706.1	Capital grants	-	-	7,333	7,333
711	Investment income - unrestricted	1,731	168	-	1,899
715	Other revenue	3,869	-	-	3,869
700	TOTAL REVENUE	97,628	139,842	12,478	249,948
<u>EXPENSES</u>					
Administrative:					
911	Administrative salaries	15,010	5,038	-	20,048
912	Auditing fees	-	-	-	-
915	Employee benefit contributions- administrative	2,319	975	-	3,294
916	Other operating- administrative	11,098	5,162	-	16,260
	Total Administrative	28,427	11,175	-	39,602

See accompanying notes to financial statements



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

POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant Services:					
924	Tenant services - other	88	-	-	88
Utilities:					
931	Water	5,738	-	-	5,738
932	Electricity	3,732	-	-	3,732
933	Gas	9,224	-	-	9,224
	Total Utilities	18,694	-	-	18,694
Maintenance:					
941	Ordinary maintenance and operations - labor	16,020	-	-	16,020
942	Ordinary maintenance and operations - materials & other	5,417	-	-	5,417
943	Ordinary maintenance and operations - contract costs	10,880	-	576	11,456
945	Employee benefit contributions- ordinary maintenance	1,252	-	-	1,252
	Total Maintenance	33,569	-	576	34,145



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

POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
	General expenses:				
961	Insurance premiums	6,201	-	-	6,201
963	Payments in lieu of taxes	2,433	-	-	2,433
964	Bad Debt - tenant rents	6,276	-	-	6,276
	Total General Expenses	<u>14,910</u>	<u>-</u>	<u>-</u>	<u>14,910</u>
969	TOTAL OPERATING EXPENSES	<u>95,688</u>	<u>11,175</u>	<u>576</u>	<u>107,439</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>1,940</u>	<u>128,667</u>	<u>11,902</u>	<u>142,509</u>
971	Extraordinary maintenance	500	-	-	500
973	Housing assistance payments	-	94,734	-	94,734
974	Depreciation expense	32,748	-	4,556	37,304
900	TOTAL EXPENSES	<u>128,936</u>	<u>105,909</u>	<u>5,132</u>	<u>239,977</u>

See accompanying notes to financial statements



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

POTTERVILLE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended September 30, 2007

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
	Other financing sources (uses)				
1001	Operating Transfers In	4,569	-	-	4,569
1002	Operating Transfers Out	-	-	(4,569)	(4,569)
1010	Total other financing sources (uses)	<u>4,569</u>	<u>-</u>	<u>(4,569)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (26,739)	\$ 33,933	\$ 2,777	\$ 9,971

MEMO account information

1103	Beginning equity	\$ 350,875	\$ 50,464	\$ 75,468	\$ 476,807
1104	Prior Period Adjustments, Equity Transfers	\$ -	\$ -	\$ -	\$ -
1113	Maximum Annual Contributions Commitment	\$ -	\$ -	\$ -	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ -	\$ -	\$ -
1116	Total Annual Contributions Available	\$ -	\$ -	\$ -	\$ -
1120	Unit months available	288	300	-	588
1121	Number of unit months leased	272	245	-	517
1117	Administrative fee equity	\$ -	\$ 16,189	\$ -	\$ 16,189
1118	Housing assistance payments equity	\$ -	\$ 68,208	\$ -	\$ 68,208

**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
Potterville Housing Commission
Potterville, Michigan

We have audited the financial statements of Potterville Housing Commission as of and for the year ended September 30, 2007, and have issued our report thereon dated April 1, 2008. 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 Potterville 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 Potterville Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Potterville 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2007-1, 2007-2 and 2007-3 to be significant deficiencies in internal control over financial reporting.

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 Potterville 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.

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
(Continued)**

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as item 2007-4 and 2007-5. We noted certain immaterial instances of noncompliance that we have reported to management of the Potterville Housing Commission in a separate letter dated April 1, 2008.

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 & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

April 1, 2008

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



POTTERVILLE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

Finding 2007-1

Reportable Condition:

The Commission does not have adequate internal control policies and procedures over accounts receivable, capital assets.

1. During the audit it was noted that a tenant had moved into an apartment in January 2007 and was not added to the rent roll until July 2007, and had not paid any rent in those months.
2. During the audit of receivables, it was noted that the Commission did not have internal control procedures in place to accurately review accounts receivable and the collectability of old accounts.
3. During the audit of capital assets it was noted that the Commission did not have internal control policies or procedures in place related to safeguarding its capital assets. There were no procedures in place to take physical inventory of capital assets during the year.

Criteria:

24 CFR 85.20 requires the Commission to have effective internal controls and accountability must be maintained for all funds, real and personal property, and other assets. The Commission must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Condition:

The Commission does not have adequate segregation of duties or compensating procedures to assure the accountability and safeguarding of Commission funds and assets.

Questioned Costs:

None

Effect:

With adequate and effective internal control policies and procedures, the risk of errors or misstatements would be prevented or timely detected.

Cause:

Lack of segregation of duties and/or compensating controls over accounts receivable and capital assets.

Recommendation:

The Commission should adopt policies and procedures that would require oversight of accounts receivable independent of the executive director as well as policies and procedures that would require at a minimum a yearly physical inventory of capital assets to compare actual to the capital asset listing maintained by the Commission.



POTTERVILLE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT - continued

SIGNIFICANT DEFICIENCIES

Finding 2007-1 (continued)

Management's Response:

Management agrees and has begun changing policies and procedures that would allow for proper controls over accounts receivable and capital assets.

Finding 2007-2

Reportable Condition:

The Commission does not have adequate internal control policies and procedures to require proper supporting documentation for cash disbursements and cancellation of invoices. During the audit of cash disbursements it was noted that original individual charge slips were not attached to the monthly statements from local vendors as well as invoices not being cancelled upon payment.

Criteria:

24 CFR 85.20 requires accounting records must be supported by source documents such as cancelled checks, paid bills, etc.

Condition:

The Commission does not have adequate internal control policies and procedures over cash disbursements requiring all monthly charge slips to be attached to monthly statements along with all invoices to be cancelled upon payment.

Questioned Costs:

None

Effect:

With adequate and effective internal control policies and procedures, the risk of errors or misstatements would be prevented or timely detected.

Cause:

Lack of segregation of duties and/or compensating controls over cash disbursements.

Recommendation:

The Commission should adopt policies and procedures that would require individual charge receipts to be attached to the monthly statement prior to payment. Additionally, the Commission should have policies and procedures that would require all invoices to be marked paid upon payment.

Management's Response:

Management agrees and has begun changing policies and procedures requiring all receipts to be attached to statements along with stamping "paid" on each invoice upon payment.



POTTERVILLE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT - continued

SIGNIFICANT DEFICIENCIES

Finding 2007-2 (continued)

Management's Response:

Management agrees and has begun changing policies and procedures requiring all receipts to be attached to statements along with stamping "paid" on each invoice upon payment.

Finding 2007-3

Reportable Condition:

The Commission does not have adequate internal control policies over tenant receipts received each month. During the audit of tenant rents and receipts, 5 individual receipts could not be located along with proper supporting documentation. Additionally, there were no indications of control over accounting for each sequence of receipts.

Criteria:

24 CFR 85.20 requires accounting records must be supported by source documents such as cancelled checks, paid bills, etc.

Condition:

The Commission does not have adequate internal control policies and procedures over cash receipts.

Questioned Costs:

None

Effect:

With adequate and effective internal control policies and procedures, the risk of errors or misstatements would be prevented or timely detected.

Cause:

Lack of segregation of duties and/or compensating controls over cash receipts.

Recommendation:

The Commission should adopt policies and procedures that would require oversight over cash receipts requiring accountability for each pre-numbered receipt. Additionally, the Commission should require a copy of every receipt to be attached to each batch report along with supporting documentation as deemed necessary.

Management's Response:

Management agrees and has purchased new tenant accounting software that will provide management with monthly batch reports. Additionally, management will implement procedures to account for receipt on a monthly basis.



POTTERVILLE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT - continued

COMPLIANCE WITH LAWS AND REGULATIONS

Finding 2007-4

Reportable Condition:

During the audit it was noted that housing did not have all of its funds fully insured by the bank it does business with. The Commission held funds in excess of FDIC insurance in the amount of \$13,235, which was not collateralized.

Criteria:

The ACC contract between HUD and the Commission requires a depository agreement to be signed by every financial institution the Commission does business with. Additionally, HUD requires the funds of the Commission to be 100% insured or collateralized.

Condition:

The Commission did not require the bank to collateralize the funds in excess of FDIC insurance limits.

Questioned Costs:

None

Effect:

The Commission's funds would be fully insured and collateralized.

Cause:

Lack of oversight over the Commissions bank balances and compliance with the ACC contract.

Recommendation:

The Commission should contact the bank it does business with and have them provide collateral to cover the amounts over FDIC insurance or move some of its funds to another bank to stay under the FDIC insurance limits.

Management's Response:

Management agrees and will take necessary steps to either get the funds collateralized or move them.

Finding 2007-5

Reportable Condition:

It was noted during the audit of tenant files that the Commission did not re-certify tenants annually as required by HUD.



POTTERVILLE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT - continued

COMPLIANCE WITH LAWS AND REGULATIONS

Finding 2007-5 (continued)

Criteria:

24 CFR section 960.259 requires the Commission to certify tenant's income upon move-in, annually, or during the interim if the tenant's income or expenses have changed in excess of the limits as defined in the Commission's Admission and Continued Occupation Policy (ACOP).

Condition:

The Commission did not have procedures in place to re-certify tenants annually as required by 24 CFR section 960.259.

Questioned Costs:

None

Effect:

Tenants would be recertified annually and rents for each tenant would be adjusted based upon their income and expense levels.

Cause:

Lack of oversight over the process of re-certifying tenants annually.

Recommendation:

The Commission should implement policies and procedures to track the annual recertification process for each tenant and assign an authorized individual to verify that the process is completed as required.

Management's Response:

Management has purchased new tenant accounting software that will aid in assisting the Commission to verify that all tenants are re-certified annually.

