

HOUGHTON HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2007

HOUGHTON HOUSING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	3-4
Management Discussion and Analysis	5-8
Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Statement of Revenues, Expenses, and Change in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13-19
Supplemental Information:	
Financial Data Schedule	21-24
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	25-26
Schedule of Findings and Responses	27



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

(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
Houghton Housing Commission
Houghton, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Houghton Housing Commission as of and for the year ended December 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 Houghton Housing Commission as of December 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 16, 2008 on our consideration of the Houghton 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 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 Houghton 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, is 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 16, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Houghton Housing Commission's financial performance provides an overview of the financial activities for the year ended December 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 \$1,778,820 for the year ended December 31, 2007 compared to \$1,754,804 for the year ended December 31, 2006.
- The Commission's operating revenues totaled \$375,657 for the year ended December 31, 2007 and \$360,253 for the year ended December 31, 2006, while operating expenses totaled \$512,802 for the year ended December 31, 2007 and \$514,080 for the year ended December 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 December 31, 2007 increased \$24,016 from the year ended December 31, 2006.

Table 1

NET ASSETS

	December 31,	
	2007	2006
Assets		
Current assets	\$ 295,342	\$ 290,088
Capital assets (net)	<u>1,540,426</u>	<u>1,527,842</u>
Total assets	<u>1,835,768</u>	<u>1,817,930</u>
Liabilities		
Current liabilities	55,577	59,905
Noncurrent liabilities	<u>1,371</u>	<u>3,221</u>
Total liabilities	<u>56,948</u>	<u>63,126</u>
Net Assets		
Invested in capital assets, net of related debt	1,540,426	1,527,842
Unrestricted	<u>238,394</u>	<u>226,962</u>
Net Assets	<u>\$ 1,778,820</u>	<u>\$ 1,754,804</u>

Net assets of the Commission stood at \$1,778,820 for the year ended December 31, 2007 compared to \$1,754,804 for the year ended December 31, 2006. Unrestricted net business assets were \$238,394 for the year ended December 31, 2007 compared to \$226,962 for the year ended December 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 a \$8,858 decrease in cash and a \$17,435 increase in investments. The decrease in current liabilities was largely due to a \$2,288 increase in accounts payable and a \$6,616 decrease in accrued liabilities.

Table 2**CHANGE IN NET ASSETS**

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 214,526	\$ 202,850
Program grants and subsidies	293,115	214,176
General revenues:		
Other revenues	16,820	9,481
Unrestricted investment earnings	<u>12,357</u>	<u>5,966</u>
 Total revenues	 536,818	 432,473
 Program Expenses:		
Operating expenses	<u>512,802</u>	<u>514,080</u>
 Change in net assets	 24,016	 (81,607)
 Net assets - beginning of period	 <u>1,754,804</u>	 <u>1,836,411</u>
 Net assets - end of period	 <u>\$ 1,778,820</u>	 <u>\$ 1,754,804</u>

BUSINESS - TYPE ACTIVITIES

Revenues for the Commission totaled \$536,818 for the year ended December 31, 2007 compared to \$432,473 for the year ended December 31, 2006. The Commission's average unit months leased on a monthly basis had decreased during the current year. 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 was largely due to a \$7,775 decrease in administrative expenses, a \$4,401 decrease in general expenses, a \$17,948 increase in maintenance, and a \$7,122 increase in depreciation expense.

CAPTIAL ASSETS

Capital Assets

The Commission had \$4,720,176 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2007 compared to \$4,552,552 for the year ended December 31, 2006.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2007	2006
Land	\$ 173,736	\$ 173,736
Leasehold improvements	612,237	557,875
Building and improvements	3,775,970	3,682,049
Equipment	139,862	137,497
Construction in progress	<u>18,371</u>	<u>1,395</u>
Total	4,720,176	4,552,552
Less accumulated depreciation	<u>(3,179,750)</u>	<u>(3,024,710)</u>
NET CAPITAL ASSETS	<u>\$ 1,540,426</u>	<u>\$ 1,527,842</u>

The Commission invested \$167,624 in capital assets during the year ended December 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 calendar year 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 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, Sherry Hughes, at 401 E. Montezuma Street, Houghton, Michigan 49931, or call 906-482-0334.

HOUGHTON HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2007

CURRENT ASSETS:

Cash and equivalents	\$ 157,855
Accounts receivable	2,479
Investments	122,287
Prepaid expenses	<u>12,721</u>

TOTAL CURRENT ASSETS 295,342

NONCURRENT ASSETS:

Capital assets	4,720,176
Less accumulated depreciation	<u>(3,179,750)</u>

NET CAPITAL ASSETS 1,540,426

TOTAL ASSETS 1,835,768

CURRENT LIABILITIES:

Accounts payable	20,185
Accrued liabilities	<u>35,392</u>

TOTAL CURRENT LIABILITIES 55,577

NONCURRENT LIABILITIES

1,371

TOTAL LIABILITIES 56,948

NET ASSETS:

Investment in capital assets, net of related debt	1,540,426
Unrestricted net assets	<u>238,394</u>

NET ASSETS \$ 1,778,820

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



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



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

HOUGHTON HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 512,802	\$ 214,526	\$ 144,311	\$ 148,804
				\$ (5,161)
General revenues:				
				12,357
				16,820
				29,177
				24,016
NET ASSETS, beginning of year				1,754,804
NET ASSETS, end of year				\$ 1,778,820

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

HOUGHTON HOUSING COMMISSION

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

For the Year Ended December 31, 2007

OPERATING REVENUES:	
Tenant revenue	\$ 214,526
Program grants-subsidies	144,311
Other income	<u>16,820</u>
TOTAL OPERATING REVENUES	<u>375,657</u>
OPERATING EXPENSES:	
Administration	121,932
Tenant services	2,757
Utilities	97,311
Maintenance	110,513
General	24,927
Other operating expenses	322
Depreciation	<u>155,040</u>
TOTAL OPERATING EXPENSES	<u>512,802</u>
OPERATING (LOSS)	<u>(137,145)</u>
NONOPERATING REVENUES AND (EXPENSES):	
Capital grants	148,804
Interest income	<u>12,357</u>
TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>161,161</u>
CHANGE IN NET ASSETS	24,016
NET ASSETS, BEGINNING OF YEAR	<u>1,754,804</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,778,820</u></u>

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



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

HOUGHTON HOUSING COMMISSION

STATEMENT OF CASH FLOWS Proprietary Fund

For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 213,977
Cash received from grants and subsidies	144,311
Cash payments to suppliers for goods and services	(186,484)
Cash payments for wages and related benefits	(167,176)
Cash payments for payment in lieu of taxes	(10,923)
Other receipts	<u>16,820</u>
 NET CASH PROVIDED FROM OPERATING ACTIVITIES	 <u>10,525</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants	152,998
Acquisition of capital assets	<u>(167,624)</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(14,626)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(17,435)
Investment income	<u>12,678</u>
 NET CASH (USED) BY INVESTING ACTIVITIES	 <u>(4,757)</u>
 NET (DECREASE) IN CASH AND EQUIVALENTS	 <u>(8,858)</u>
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>166,713</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 157,855</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (137,145)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	155,040
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(549)
Decrease (Increase) in prepaid expenses	(643)
Increase (Decrease) in accounts payable	2,288
Increase (Decrease) in accrued liabilities	<u>(8,466)</u>
 NET CASH PROVIDED FROM OPERATING ACTIVITIES	 <u>\$ 10,525</u>

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



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

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

The Commission manages 70 units of low rent public housing units, 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 GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

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 Houghton Housing Commission, but the Houghton Housing Commission is a component unit of the City of Houghton, 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.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 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, 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, Statement of Revenues, Expenses and Change in Net Assets, and the 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.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 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

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.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 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 January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 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 December 31st.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 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	\$ 100
Checking accounts	<u>157,755</u>
TOTAL	<u>\$ 157,855</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 December 31, 2007, the Commission held cash and equivalents in excess of insured limits in the amount of \$41,086 which were collateralized by Wisconsin obligations with a fair market value of \$504,730 at December 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>
Certificates of Deposit	<u>\$122,287</u>	<u>\$122,287</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.

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 December 31, 2007, the Commission's investments were not exposed to credit risk, due to them being fully insured.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

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.

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:

Miners State Bank, Houghton, MI	\$ 43,541
Superior National Bank, Houghton, MI	43,617
River Valley State Bank, Houghton, MI	24,329
Wells Fargo Bank, Houghton, MI	<u>11,000</u>
Total	<u>\$122,287</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets for the year ended December 31, 2007 is as follows:

	Balance 1-1-07	Additions	Deletions	Balance 12-31-07
Land	\$ 173,736	\$ -	\$ -	\$ 173,736
Leasehold improvements	557,875	54,362	-	612,237
Building and improvements	3,682,049	93,921	-	3,775,970
Equipment	137,497	2,365	-	139,862
Construction in progress	<u>1,395</u>	<u>167,175</u>	<u>(150,199)</u>	<u>18,371</u>
	4,552,552	<u>\$ 317,823</u>	<u>\$ (150,199)</u>	4,720,176
Accumulated depreciation	<u>(3,024,710)</u>	<u>\$ (155,040)</u>	<u>\$ -</u>	<u>(3,179,750)</u>
Net capital assets	<u>\$1,527,842</u>			<u>\$ 1,540,426</u>

Depreciation expense for the year was \$155,040.



HOUGHTON HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 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 December 31, 2007 totaled \$536,818 of which \$293,115 or 54.6% 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

The Commission has established a SEP-IRA plan of which the Commission contributes 8% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$7,074.

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





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

**SUPPLEMENTAL
INFORMATION**

HOUGHTON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 142,764	\$ -	\$ 142,764
114	Cash - tenant security deposit	15,091	-	15,091
100	Total cash	<u>157,855</u>	<u>-</u>	<u>157,855</u>
Accounts and notes receivables:				
126	Accounts receivable- tenants	1,518	-	1,518
126.1	Allowance for doubtful accounts - tenants	(813)	-	(813)
129	Accrued interest receivable	1,774	-	1,774
120	Total receivables, net of allowances for doubtful accounts	<u>2,479</u>	<u>-</u>	<u>2,479</u>
Other current assets:				
131	Investments	122,287	-	122,287
142	Prepaid expenses	12,721	-	12,721
150	TOTAL CURRENT ASSETS	<u>295,342</u>	<u>-</u>	<u>295,342</u>
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	173,736	-	173,736
162	Buildings	3,628,269	147,701	3,775,970
163	Furniture, equipment & machinery - dwellings	52,220	449	52,669
164	Furniture, equipment & machinery - administration	82,730	4,463	87,193
165	Leasehold improvements	550,195	62,042	612,237
166	Accumulated depreciation	(3,168,265)	(11,485)	(3,179,750)
167	Construction in progress	18,371	-	18,371
160	Total fixed assets, net of accumulated depreciation	<u>1,337,256</u>	<u>203,170</u>	<u>1,540,426</u>
180	TOTAL NONCURRENT ASSETS	<u>1,337,256</u>	<u>203,170</u>	<u>1,540,426</u>
190	TOTAL ASSETS	<u>\$ 1,632,598</u>	<u>\$ 203,170</u>	<u>\$ 1,835,768</u>

See accompanying notes to financial statements.



HOUGHTON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 20,185	\$ -	\$ 20,185
321	Accrued wages / payroll taxes payable	4,387	-	4,387
322	Accrued compensated absences - current portion	3,109	-	3,109
333	Accounts payable - other government	10,923	-	10,923
341	Tenant security deposits	15,091	-	15,091
342	Deferred revenues	1,882	-	1,882
310	TOTAL CURRENT LIABILITIES	<u>55,577</u>	<u>-</u>	<u>55,577</u>
354	Accrued compensated absences - non current	1,371	-	1,371
350	TOTAL NONCURRENT LIABILITIES	<u>1,371</u>	<u>-</u>	<u>1,371</u>
300	TOTAL LIABILITIES	<u>56,948</u>	<u>-</u>	<u>56,948</u>
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	1,337,256	203,170	1,540,426
512.1	Unrestricted net assets	238,394	-	238,394
513	TOTAL NET ASSETS	<u>1,575,650</u>	<u>203,170</u>	<u>1,778,820</u>
600	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,632,598</u>	<u>\$ 203,170</u>	<u>\$ 1,835,768</u>

See accompanying notes to financial statements.



HOUGHTON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 211,917	\$ -	\$ 211,917
704	Tenant revenue - other	2,609	-	2,609
705	Total tenant revenue	214,526	-	214,526
706	HUD PHA grants	118,912	25,399	144,311
706.1	Capital grants	-	148,804	148,804
711	Investment income - unrestricted	12,357	-	12,357
715	Other revenue	16,820	-	16,820
700	TOTAL REVENUE	362,615	174,203	536,818
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	62,342	-	62,342
912	Auditing fees	3,200	-	3,200
914	Compensated absences	(1,084)	-	(1,084)
915	Employee benefit contributions- administrative	36,628	-	36,628
916	Other operating- administrative	20,846	-	20,846
	Total Administrative	121,932	-	121,932
Tenant services:				
924	Tenant services - other	2,757	-	2,757
Utilities:				
931	Water	36,160	-	36,160
932	Electricity	50,854	-	50,854
933	Gas	10,297	-	10,297
	Total Utilities	97,311	-	97,311

See accompanying notes to financial statements.



HOUGHTON HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended December 31, 2007

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
Maintenance:				
941	Ordinary maintenance and operations - labor	55,143	-	55,143
942	Ordinary maintenance and operations - materials & other	13,232	-	13,232
943	Ordinary maintenance and operations - contract costs	22,052	6,478	28,530
945	Employee benefit contributions- ordinary maintenance	13,608	-	13,608
	Total Maintenance	<u>104,035</u>	<u>6,478</u>	<u>110,513</u>
General expenses:				
961	Insurance premiums	13,191	-	13,191
963	Payments in lieu of taxes	10,923	-	10,923
964	Bad debt - tenant rents	813	-	813
	Total General Expenses	<u>24,927</u>	<u>-</u>	<u>24,927</u>
969	TOTAL OPERATING EXPENSES	<u>350,962</u>	<u>6,478</u>	<u>357,440</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>11,653</u>	<u>167,725</u>	<u>179,378</u>
971	Extraordinary maintenance	322	-	322
974	Depreciation expense	144,898	10,142	155,040
900	TOTAL EXPENSES	<u>496,182</u>	<u>16,620</u>	<u>512,802</u>
Other financing sources (uses)				
1001	Operating transfers in	18,921	-	18,921
1002	Operating transfers out	-	(18,921)	(18,921)
1010	Total other financing sources (uses)	<u>18,921</u>	<u>(18,921)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (114,646)</u>	<u>\$ 138,662</u>	<u>\$ 24,016</u>
MEMO account information				
1103	Beginning equity	\$ 1,613,977	\$ 140,827	\$ 1,754,804
1104	Prior Period Adjustments, Equity Transfers	\$ 76,319	\$ (76,319)	\$ -
1120	Unit months available	840	-	840
1121	Number of unit months leased	831	-	831

See accompanying notes to financial statements.



**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
Houghton Housing Commission
Houghton, Michigan

We have audited the financial statements of Houghton Housing Commission as of and for the year ended December 31, 2007, and have issued our report thereon dated September 16, 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 Houghton 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 Houghton Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Houghton 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 item 2007-1 to be a significant deficiency 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 Houghton 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*. The results of our tests disclosed instances of non compliance or other matters to be reported under *Governmental Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as item 2007-2.



**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. P.C.

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

September 16, 2008

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



HOUGHTON HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

COMPLIANCE AND OTHER MATTERS

Finding 2007-1

Reportable Condition:

During the audit it was noted that Form 50058 for interim reexaminations were not printed and placed in tenant files.

Criteria:

24 CFR Part 990 requires the Commission to submit Form 50058 electronically to HUD for each tenant admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family.

Condition:

The Commission did not have policies and procedures ensuring Form 50058 for interim reexaminations to be printed and placed in tenant files.

Questioned Costs:

None

Effect:

Form 50058 for interim reexaminations were not printed and included in the tenant files.

Cause:

Incorrect policies and procedures over Form 50058 for interim reexaminations.

Recommendation:

The Commission should adopt policies and procedures that would require Form 50058 for interim reexaminations to be printed and kept in the tenant file to ensure compliance with requirements.

Management's Response:

Management agrees that Form 50058 for interim reexaminations were not printed and placed in tenant files, but feels the finding is not valid relative to complying with the requirements of submitting Form 50058 as required by HUD. The Commission uses a software program that calculates tenant rents and then automatically uploads the information from that program to Form 50058 for submission to the PIC system. Management reviews the tenant rent calculation worksheet prepared by the software to verify the amounts used to calculate the rent agrees with the third-party for each tenant. Management feels that since the information on the rent calculation worksheet is correct and that same information is uploaded to Form 50058, we have complied with the requirements of completing Form 50058. Management will print Form 50058 for each interim reexamination and place it in the tenant file as it does with annual certifications.





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

September 16, 2008

To the Board of Commissioners
Houghton Housing Commission

We have audited the financial statements of the business-type activities of the Houghton Housing Commission for the year ended December 31, 2007, and have issued our report thereon dated September 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Houghton Housing Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Houghton Housing Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Houghton Housing Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during calendar year 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no major sensitive accounting estimates.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2008.

Management Consultations with Other Independent Accountants

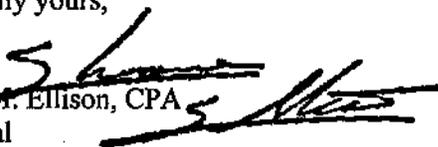
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the business-type unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Commissioners and management of the Houghton Housing Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Shane M. Ellison, CPA
Principal



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

To the Board of Commissioners,
Sherry Hughes, Executive Director

In planning and performing our audit of the financial statements of Houghton Housing Commission as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Houghton Housing Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Finding 2008-1

During the audit it was noted that Form 50058 for interim re-examinations were not printed and placed in tenant files.

This communication is intended solely for the information and use of management, Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Anderson, Tackman & Co. PLC". The signature is written in a cursive, flowing style.

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

September 16, 2008