Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Negaunee Housing Commission	Marquette

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
12/31/06	7/11/07	7/15/07

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	N/A
Other (Describe)	☒	N/A

Certified Public Accountant (Firm Name)	Telephone Number		
Anderson, Tackman & Company, PLC	906-774-4300		
Street Address	**City**	**State**	**Zip**
Po Box 828	Iron Mountain	MI	49801
Authorizing CPA Signature	**Printed Name**	**License Number**	
	Shane M. Ellison, CPA	263063	

NEGAUNEE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2006

NEGAUNEE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
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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
Negaunee Housing Commission
Negaunee, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Negaunee Housing Commission as of and for the year ended December 31, 2006 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 Negaunee Housing Commission as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2007 on our consideration of the Negaunee 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.

201 E. HUGHITT, P.O. BOX 828 IRON MOUNTAIN, MICHIGAN 49801 (906) 774-4300 FAX (906) 774-6926

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Negaunee 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 & Co. PLC

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

July 11, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Negaunee Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2006. 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 $1,818,707 for the year ended December 31, 2006 compared to $1,855,672 for the year ended December 31, 2005.

- The Commission's operating revenues totaled $357,652 for the year ended December 31, 2006 and $386,738 for the year ended December 31, 2005, while operating expenses totaled $448,187 for the year ended December 31, 2006 and $447,960 for the year ended December 31, 2005.

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, 2006 decreased $(36,965) from the year ended December 31, 2005.

Table 1

NET ASSETS

	December 31,	
	2006	2005
Assets		
Current assets	$ 700,529	$ 576,078
Capital assets (net)	1,215,415	1,342,587
Total assets	1,915,944	1,918,665
Liabilities		
Current liabilities	88,817	52,391
Noncurrent liabilities	8,420	10,602
Total liabilities	97,237	62,993
Net Assets		
Invested in capital assets, net of related debt	1,215,415	1,342,587
Unrestricted	603,292	513,085
Net Assets	$1,818,707	$1,855,672

Net assets of the Commission stood at $1,818,707 for the year ended December 31, 2006 compared to $1,855,672 for the year ended December 31, 2005. Unrestricted net business assets were $603,292 for the year ended December 31, 2006 compared to $513,085 for the year ended December 31, 2005. 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 $102,702 increase in cash and a $18,248 increase in accounts receivables. The increase in current liabilities was largely due to a $21,549 increase in accounts payable and a $12,405 increase in accrued wages/payroll taxes payable.

Table 2

CHANGE IN NET ASSETS

	Year Ended December 31,	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	$ 257,372	$ 247,603
Program grants and subsidies	122,262	134,374
General revenues:		
Other revenues	6,761	4,761
Unrestricted investment earnings	24,827	13,797
Total revenues	411,222	400,535
Program Expenses:		
Operating expenses	448,187	447,960
Change in net assets	(36,965)	(47,425)
Net assets - beginning of period	1,855,672	1,903,097
Net assets - end of period	$ 1,818,707	$ 1,855,672

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled $411,222 for the year ended December 31, 2006 compared to $400,535 for the year ended December 31, 2005. The Commission's average unit months leased on a monthly basis had decreased slightly during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. Investment earnings had increased during the year due to the increase in cash and investment balances and an increase in interest rates. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. Operating expenses ran very consistent with the prior year with no large variations or fluctuations.

CAPTIAL ASSETS

Capital Assets

The Commission had $3,781,858 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2006 compared to $3,746,901 for the year ended December 31, 2005.

Table 3

CAPITAL ASSETS
Business - Type Activity

	December 31,	
	2006	2005
Land and improvements	$ 230,827	$ 226,414
Building and improvements	3,365,431	3,343,642
Equipment	185,600	176,845
Total	3,781,858	3,746,901
Less accumulated depreciation	(2,566,443)	(2,404,314)
NET CAPITAL ASSETS	$1,215,415	$1,342,587

The Commission invested $44,280 in capital assets during the year ended December 31, 2006.

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 2007. 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 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, Marcia Waters, at 98 Croix Street, Negaunee, Michigan 49866, or call 906-475-9107.

NEGAUNEE HOUSING COMMISSION

STATEMENT OF NET ASSETS
Proprietary Fund

December 31, 2006

CURRENT ASSETS:	
Cash and equivalents	$ 483,531
Accounts receivable, net	29,279
Investments	165,527
Inventory	11,249
Prepaid expenses	10,943
TOTAL CURRENT ASSETS	700,529
NONCURRENT ASSETS:	
Capital assets	3,781,858
Less accumulated depreciation	(2,566,443)
NET CAPITAL ASSETS	1,215,415
TOTAL ASSETS	1,915,944
CURRENT LIABILITIES:	
Accounts payable	21,929
Accrued liabilities	66,888
TOTAL CURRENT LIABILITIES	88,817
NONCURRENT LIABILITIES	8,420
TOTAL LIABILITIES	97,237
NET ASSETS:	
Investment in capital assets, net of related debt	1,215,415
Unrestricted net assets	603,292
NET ASSETS	$ 1,818,707

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

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NEGAUNEE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenue: Fees, Fines and Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	$ 448,187	$ 257,372	$ 93,947	$ 28,315	$ (68,553)
General revenues:					
Unrestricted investment earnings					24,827
Other					6,761
Total general revenues					31,588
Change in net assets					(36,965)
NET ASSETS, beginning of year					1,855,672
NET ASSETS, end of year					$ 1,818,707

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

NEGAUNEE HOUSING COMMISSION

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

For the Year Ended December 31, 2006

OPERATING REVENUES:	
Tenant revenue	$ 257,372
Program grants-subsidies	93,947
Other income	6,333
TOTAL OPERATING REVENUES	357,652
OPERATING EXPENSES:	
Administration	76,977
Tenant services	92
Utilities	63,405
Maintenance	103,840
General	32,714
Depreciation	171,159
TOTAL OPERATING EXPENSES	448,187
OPERATING (LOSS)	(90,535)
NONOPERATING REVENUES AND (EXPENSES):	
Capital grants	28,315
Interest income	24,827
Gain on sale of fixed assets	428
TOTAL NONOPERATING REVENUES AND (EXPENSES)	53,570
CHANGE IN NET ASSETS	(36,965)
NET ASSETS, BEGINNING OF YEAR	1,855,672
NET ASSETS, END OF YEAR	$ 1,818,707

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

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NEGAUNEE HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 257,527
Cash received from grants and subsidies	75,699
Cash payments to suppliers for goods and services	(93,798)
Cash payments for wages and related benefits	(129,483)
Cash payments for payment in lieu of taxes	(17,652)
Other receipts	6,333
NET CASH PROVIDED FROM OPERATING ACTIVITIES	98,626
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sale of capital assets	655
Capital grants	28,315
Acquisition of capital assets	(44,280)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,310)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(5,073)
Investment income	24,459
NET CASH PROVIDED FROM INVESTING ACTIVITIES	19,386
NET INCREASE IN CASH AND EQUIVALENTS	102,702
CASH AND EQUIVALENTS, BEGINNING OF YEAR	380,829
CASH AND EQUIVALENTS, END OF YEAR	$ 483,531
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (90,535)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	171,159
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(18,093)
Decrease (Increase) in inventories	2,714
Decrease (Increase) in prepaid expenses	(929)
Increase (Decrease) in accounts payable	21,615
Increase (Decrease) in accrued liabilities	12,695
NET CASH PROVED FROM OPERATING ACTIVITIES	$ 98,626

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

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

The Commission manages 80 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 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 Negaunee Housing Commission, nor is the Commission a component unit of another entity.

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.

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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.

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CERTIFIED PUBLIC ACCOUNTANTS

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. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.

d. 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.

e. 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 $200 per item.

f. 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.

g. 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.

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CERTIFIED PUBLIC ACCOUNTANTS

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.

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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:

Checking accounts	$483,526
Savings account	5
TOTAL	$483,531

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, 2006, the Commission's cash and equivalents were not exposed to credit risk, due to them being fully insured.

Investments

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

Investment Type	Fair Value	(Investment Maturities in Years) Less Than 1 Year
Certificates of Deposit	$165,527	$165,527

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. State law does not require, and the Commission does not have a policy for, investment custodial credit risk. As of December 31, 2006, the Commission's investments were not exposed to credit risk, due to them being fully insured.

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

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 are with the following three financial institutions:

Range Bank	$ 58,799
Superior Iron Range Credit Union	$ 62,340
Peninsula Bank	$ 44,388
Total	$165,527

NOTE C – CAPITAL ASSETS

A summary of capital assets as of December 31, 2006 is as follows:

	Balance 1-1-06	Additions	Deletions	Balance 12-31-06
Land and improvements	$ 226,414	$ 4,413	$ -	$ 230,827
Building and improvements	3,343,641	21,790	-	3,365,431
Equipment	176,846	18,687	(9,933)	185,600
	3,746,901	$ 44,890	$ (9,933)	3,781,858
Accumulated depreciation	(2,404,314)	$ (171,159)	$ 9,030	(2,566,443)
Net capital assets	$ 1,342,587			$ 1,215,415

Depreciation expense for the year was $171,159.

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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 operating revenues for the year ended December 31, 2006 totaled $411,222 of which $122,262 or 29.7% 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 – DEFINED BENEFIT PENSION PLAN

The following information is based upon the latest available actuarial valuation (as of December 31, 2005).

Plan Description

The Commission is part of the City of Negaunee's plan. The City contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

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NOTE G – DEFINED BENEFIT PENSION PLAN (Continued)

The qualified employees of the Police Department of the City are included in a separate self-administered plan. All other full-time employees of the City are eligible to participate in the System. Benefits vest after ten years of service. City employees who retire at or after age 55 with twenty-five years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.25 percent of final average compensation, with a maximum benefit of 80% of final average compensation.

The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Funding Policy

The City is required to contribute the amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended December 31, 2006, the City's annual pension cost of $265,950 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period ranging from 30 to 39 years.

Analysis of Funding Progress
Three-Year Trend Information

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)-Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) – (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/03	$8,051,626	$6,075,487	$1,976,139	75%	$1,393,028	142%
12/31/04	8,706,230	6,298,728	2,407,502	72%	1,558,272	154%
12/31/05	9,043,298	6,536,168	2,507,130	72%	1,420,270	177%

Schedule of Employer Contributions

Fiscal Year Ending December 31	Valuation Date December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	2002	$220,848	100%	-
2005	2003	268,992	100%	-
2006	2004	265,950	100%	-

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SUPPLEMENTAL INFORMATION

NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	ASSETS			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	$ 483,531	$ -	$ 483,531
100	Total cash	483,531	-	483,531
122	Accounts Receivable - HUD	21,970	5,632	27,602
126	Accounts Receivable - dwelling rents	1,637	-	1,637
126.1	Allowance for doubtful accounts - dwelling rents	(1,087)	-	(1,087)
129	Accrued interest	1,127	-	1,127
120	Total receivables, net of allowances for doubtful accounts	23,647	5,632	29,279
	Other current assets:			
131	Investments - Unrestricted	165,527	-	165,527
142	Prepaid expenses and Other Assets	10,943	-	10,943
143	Inventories	10,889	360	11,249
144	Interprogram due from	5,632	-	5,632
150	TOTAL CURRENT ASSETS	700,169	5,992	706,161
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	18,720	-	18,720
162	Buildings	3,319,864	45,567	3,365,431
163	Furniture, equipment & machinery - dwellings	64,524	8,688	73,212
164	Furniture, equipment & machinery - administration	101,347	11,041	112,388
165	Leasehold improvements	185,494	26,613	212,107
166	Accumulated depreciation	(2,555,767)	(10,676)	(2,566,443)
160	Total fixed assets, net of accumulated depreciation	1,134,182	81,233	1,215,415
180	TOTAL NONCURRENT ASSETS	1,134,182	81,233	1,215,415
190	TOTAL ASSETS	$ 1,834,351	$ 87,225	$ 1,921,576

See accompanying notes to financial statements

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

NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	LIABILITIES AND NET ASSETS			
	LIABILITIES:			
	CURRENT LIABILITIES			
312	Accounts payable ≤ 90 days	$ 21,929	$ -	$ 21,929
321	Accrued wage/payroll taxes payable	12,405	-	12,405
322	Accrued compensated absences - current portion	14,268	-	14,268
333	Accounts payable - other government	18,580	-	18,580
341	Tenant security deposits	21,585	-	21,585
342	Deferred revenues	50	-	50
347	Interprogram due to	-	5,632	5,632
310	TOTAL CURRENT LIABILITIES	88,817	5,632	94,449
354	Accrued compensated absences - non current	8,420	-	8,420
350	TOTAL NONCURRENT LIABILITIES	8,420	-	8,420
300	TOTAL LIABILITIES	97,237	5,632	102,869
	NET ASSETS			
508.1	Investment in capital assets, net of related debt	1,134,182	81,233	1,215,415
512.1	Unrestricted net assets	602,932	360	603,292
513	TOTAL NET ASSETS	1,737,114	81,593	1,818,707
600	TOTAL LIABILITIES AND NET ASSETS	$ 1,834,351	$ 87,225	$ 1,921,576

See accompanying notes to financial statements

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

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NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	REVENUES			
703	Net tenant rental revenue	$ 256,757	$ -	$ 256,757
704	Tenant revenue - other	615	-	615
705	Total tenant revenue	257,372	-	257,372
706	HUD PHA grants	62,152	31,795	93,947
706.1	Capital grants	-	28,315	28,315
711	Investment income - unrestricted	24,827	-	24,827
715	Other revenue	6,333	-	6,333
716	Gain/loss on sale of fixed assets	428	-	428
700	TOTAL REVENUE	351,112	60,110	411,222
	EXPENSES			
	Administrative:			
911	Administrative salaries	42,946	7,622	50,568
912	Auditing fees	2,500	-	2,500
914	Compensated absences	(420)	-	(420)
915	Employee benefit contributions- administrative	10,329	583	10,912
916	Other operating- administrative	11,100	2,317	13,417
	Total Administrative	66,455	10,522	76,977
924	Tenant services - other	92	-	92
	Utilities:			
931	Water	17,451	-	17,451
932	Electricity	19,971	-	19,971
933	Gas	25,983	-	25,983
	Total Utilities	63,405	-	63,405
	Maintenance:			
941	Ordinary maintenance and operations - labor	52,694	-	52,694
942	Ordinary maintenance and operations - materials & other	11,140	-	11,140
943	Ordinary maintenance and operations - contract costs	11,253	1,040	12,293
945	Employee benefit contributions- ordinary maintenance	27,713	-	27,713
	Total Maintenance	102,800	1,040	103,840

See accompanying notes to financial statements

NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	General expenses:			
961	Insurance premiums	13,352	187	13,539
963	Payments in lieu of taxes	18,580	-	18,580
964	Bad debt - tenant rents	595	-	595
	Total General Expenses	32,527	187	32,714
969	TOTAL OPERATING EXPENSES	265,279	11,749	277,028
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	85,833	48,361	134,194
974	Depreciation expense	162,650	8,509	171,159
900	TOTAL EXPENSES	427,929	20,258	448,187
	Other financing sources (uses)			
1001	Operating Transfers In	20,046	-	20,046
1002	Operating Transfers Out	-	(20,046)	(20,046)
1010	Total other financing sources (uses)	20,046	(20,046)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	$ (56,771)	$ 19,806	$ (36,965)
MEMO account information				
1103	Beginning equity	$ 1,740,947	$ 114,725	$ 1,855,672
1104	Prior Period Adjustments, Equity Transfers	$ 52,938	$ (52,938)	$ -
1120	Unit months available	960	-	960
1121	Number of unit months leased	958	-	958

See accompanying notes to financial statements

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*

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

Board of Commissioners
Negaunee Housing Commission
Negaunee, Michigan

We have audited the financial statements of Negaunee Housing Commission as of and for the year ended December 31, 2006, and have issued our report thereon dated July 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Negaunee 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 Negaunee Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Negaunee Housing Commission's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

Anderson, Tackman & Co. PLC

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

July 11, 2007

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