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	Ontonagon Housing Commission	Ontonagon

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/06	2/21/2007	3/16/2007

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
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
CPA	Shane M. Ellison, CPA	263063

ONTONAGON HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended June 30, 2006

ONTONAGON HOUSING COMMISSION

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

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

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
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
Ontonagon Housing Commission
Ontonagon, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Ontonagon Housing Commission, a component unit of the Village of Ontonagon, Michigan, as of and for the year ended June 30, 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 Ontonagon Housing Commission as of June 30, 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 February 21, 2007 on our consideration of the Ontonagon 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 Ontonagon Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, if fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson Tackman & Co. PLC

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

February 21, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ontonagon Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 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 $1,060,155 for the year ended June 30, 2006 compared to $1,036,307 for the year ended June 30, 2005.

- The Commission's operating revenues totaled $399,905 for the year ended June 30, 2006 and $258,833 for the year ended June 30, 2005, while operating expenses totaled $400,877 for the year ended June 30, 2006 and $380,614 for the year ended June 30, 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 11) 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 June 30, 2006 increased $23,848 from June 30, 2005.

Table 1

NET ASSETS

	June 30,	
	2006	2005
Assets		
Current assets	$ 315,489	$ 212,212
Capital assets (net)	796,742	853,662
Total assets	1,112,231	1,065,874
Liabilities		
Current liabilities	45,893	24,541
Noncurrent liabilities	6,183	5,026
Total liabilities	52,076	29,567
Net Assets		
Invested in capital assets, net of related debt	796,742	853,662
Unrestricted	263,413	182,645
Net Assets	$1,060,155	$1,036,307

Net assets of the Commission stood at $1,060,155 for the year ended June 30, 2006 compared to $1,036,307 for the year ended June 30, 2005. Unrestricted net business assets were $263,413 for the year ended June 30, 2006 compared to $182,645 for the year ended June 30, 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 $88,399 increase in cash. The increase in current liabilities was largely due to a $14,750 increase in accounts payable.

Table 2

CHANGE IN NET ASSETS

	Year Ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	$ 152,684	$ 143,070
Program grants and subsidies	259,638	111,515
General revenues:		
Other revenues	6,360	3,681
Unrestricted investment earnings	6,043	3,489
Total revenues	424,725	261,755
Program Expenses:		
Operating expenses	400,877	380,614
Change in net assets	23,848	(118,859)
Net assets - beginning of period	1,036,307	1,155,166
Net assets - end of period	$ 1,060,155	$ 1,036,307

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled $424,725 for the year ended June 30, 2006 compared to $261,755 for the year ended June 30, 2005. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had also decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in revenues was largely due to a $148,123 increase in program grants and subsidies. The increase in operating expenses was largely due to a $13,740 increase in administrative expenses and a $10,401 increase in maintenance expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had $2,419,612 invested in a variety of capital assets including land, equipment and buildings for the year ended June 30, 2006 compared to $2,392,566 for the year ended June 30, 2005.

Table 3

CAPITAL ASSETS
Business - Type Activity

	June 30,	
	2006	2005
Land and improvements	$ 345,662	$ 345,662
Building and improvements	1,900,411	1,900,411
Equipment	154,044	146,493
Construction in progress	19,495	-
Total	2,419,612	2,392,566
Less accumulated depreciation	(1,622,870)	(1,538,904)
NET CAPITAL ASSETS	$ 796,742	$ 853,662

The Commission invested $30,497 in capital assets during the year ended June 30, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2006/2007. 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 2006/2007 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, Sally Jarvey, at 100 Cane Court, Ontonagon, Michigan 49953, or call 906-884-2258.

ONTONAGON HOUSING COMMISSION

STATEMENT OF NET ASSETS
Proprietary Fund

June 30, 2006

CURRENT ASSETS:	
Cash and equivalents	$ 299,770
Accounts receivable	14,750
Prepaid expenses	969
TOTAL CURRENT ASSETS	315,489
NONCURRENT ASSETS:	
Capital assets	2,419,612
Less accumulated depreciation	(1,622,870)
NET CAPITAL ASSETS	796,742
TOTAL ASSETS	1,112,231
CURRENT LIABILITIES:	
Accounts payable	25,959
Accrued liabilities	19,934
TOTAL CURRENT LIABILITIES	45,893
NONCURRENT LIABILITIES	6,183
TOTAL LIABILITIES	52,076
NET ASSETS:	
Investment in capital assets, net of related debt	796,742
Unrestricted net assets	263,413
NET ASSETS	$ 1,060,155

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

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ONTONAGON HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 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	$ 400,877	$ 152,684	$ 240,143	$ 19,495	$ 11,445
General revenues:					
Unrestricted investment earnings					6,043
Other					6,360
Total general revenues					12,403
Change in net assets					23,848
NET ASSETS, beginning of year					1,036,307
NET ASSETS, end of year					$ 1,060,155

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

ONTONAGON HOUSING COMMISSION

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

For the Year Ended June 30, 2006

OPERATING REVENUES:	
Tenant revenue	$ 152,684
Program grants-subsidies	240,143
Other income	7,078
TOTAL OPERATING REVENUES	399,905
OPERATING EXPENSES:	
Administration	122,336
Tenant services	375
Utilities	86,545
Maintenance	88,505
General	16,416
Depreciation	86,700
TOTAL OPERATING EXPENSES	400,877
OPERATING (LOSS)	(972)
NONOPERATING REVENUES AND (EXPENSES):	
Capital grants	19,495
Interest income	6,043
(Loss) on sale of fixed assets	(718)
TOTAL NONOPERATING REVENUES AND (EXPENSES)	24,820
CHANGE IN NET ASSETS	23,848
NET ASSETS, BEGINNING OF YEAR	1,036,307
NET ASSETS, END OF YEAR	$ 1,060,155

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

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ONTONAGON HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 152,570
Cash received from grants and subsidies	225,507
Cash payments to suppliers for goods and services	(125,647)
Cash payments for wages and related benefits	(160,200)
Cash payments for payment in lieu of taxes	(5,950)
Other receipts	7,078
NET CASH PROVIDED FROM OPERATING ACTIVITIES	93,358
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants	19,495
Acquisition of capital assets	(30,497)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(11,002)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	6,043
NET CASH PROVIDED FROM INVESTING ACTIVITIES	6,043
NET INCREASE IN CASH AND EQUIVALENTS	88,399
CASH AND EQUIVALENTS, BEGINNING OF YEAR	211,371
CASH AND EQUIVALENTS, END OF YEAR	$ 299,770
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (972)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	86,700
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(14,750)
Decrease (Increase) in prepaid expenses	(128)
Increase (Decrease) in accounts payable	18,721
Increase (Decrease) in accrued liabilities	3,787
NET CASH PROVED FROM OPERATING ACTIVITIES	$ 93,358

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

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

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

The Commission manages 60 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 Ontonagon Housing Commission, but the Commission is a component unit of the Village of Ontonagon, 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.

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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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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.

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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 July 1st. The operating budget includes proposed expenses and the means of financing them. Prior to June 30th, the budget is legally adopted by Board resolution.

2. Formal budgetary integration is employed as a management control device during the year.

3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

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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:

Petty cash	$ 65
Checking accounts	3,995
Savings an money market accounts	295,710
TOTAL	$299,770

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 June 30, 2006, the Commission's cash and equivalents were not exposed to credit risk, due to them being fully insured.

NOTE C – CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2006 is as follows:

	Balance 7-1-05	Additions	Deletions	Balance 6-30-06
Land and improvements	$ 345,662	$ -	$ -	$ 345,662
Building and improvements	1,900,411	-	-	1,900,411
Equipment	146,493	11,003	(3,452)	154,044
Construction in progress	-	19,495	-	19,495
	2,392,566	$ 30,498	$ (3,452)	2,419,612
Accumulated depreciation	(1,538,904)	$ (86,700)	$ 2,734	(1,622,870)
Net capital assets	$ 853,662			$ 796,742

Depreciation expense for the year was $86,700.

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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 June 30, 2006 totaled $424,725 of which $259,638 or 61.1% 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 $7,481.

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SUPPLEMENTAL INFORMATION

ONTONAGON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	ASSETS			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	$ 299,770	$ -	$ 299,770
100	Total cash	299,770	-	299,770
	Accounts receivable:			
122	Accounts receivable - HUD other projects	-	14,636	14,636
125	Accounts receivable - miscellaneous	50	-	50
126	Accounts receivable - tenants - dwelling rents	433	-	433
126.1	Allowance for doubtful accounts - dwelling rents	(369)	-	(369)
120	Total receivables, net of allowances for doubtful accounts	114	14,636	14,750
	Other current assets:			
142	Prepaid expenses and Other Assets	969	-	969
144	Interprogram due from	14,636	-	14,636
150	TOTAL CURRENT ASSETS	315,489	14,636	330,125
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	39,627	-	39,627
162	Buildings	1,900,411	-	1,900,411
163	Furniture, equipment & machinery - dwellings	40,457	-	40,457
164	Furniture, equipment & machinery - administration	113,587	-	113,587
165	Leasehold improvements	306,035	-	306,035
166	Accumulated depreciation	(1,622,870)	-	(1,622,870)
167	Construction in progress	-	19,495	19,495
160	Total fixed assets, net of accumulated depreciation	777,247	19,495	796,742
180	TOTAL NONCURRENT ASSETS	777,247	19,495	796,742
190	TOTAL ASSETS	$ 1,092,736	$ 34,131	$ 1,126,867

See accompanying notes to financial statements.

ANDERSON, TACKMAN & COMPANY, P.L.C.
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ONTONAGON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

June 30, 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	$ 25,959	$ -	$ 25,959
322	Accrued compensated absences - current portion	8,002	-	8,002
333	Accounts payable - other government	5,950	-	5,950
341	Tenant security deposits	5,980	-	5,980
342	Deferred revenues	2	-	2
347	Interprogram due to	-	14,636	14,636
310	TOTAL CURRENT LIABILITIES	45,893	14,636	60,529
354	Accrued compensated absences - non current	6,183	-	6,183
350	TOTAL NONCURRENT LIABILITIES	6,183	-	6,183
300	TOTAL LIABILITIES	52,076	14,636	66,712
	NET ASSETS			
508.1	Investment in capital assets, net of related debt	777,247	19,495	796,742
512.1	Unrestricted net assets	263,413	-	263,413
513	TOTAL NET ASSETS	1,040,660	19,495	1,060,155
600	TOTAL LIABILITIES AND NET ASSETS	$ 1,092,736	$ 34,131	$ 1,126,867

See accompanying notes to financial statements.

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

ONTONAGON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	REVENUES			
703	Net tenant rental revenue	$ 152,609	$ -	$ 152,609
704	Tenant revenue - other	75	-	75
705	Total tenant revenue	152,684	-	152,684
706	HUD PHA grants	128,755	111,388	240,143
706.1	Capital grants	-	19,495	19,495
711	Investment income - unrestricted	6,043	-	6,043
715	Other revenue	7,078	-	7,078
716	Gain/Loss on sale of fixed assets	(718)	-	(718)
700	TOTAL REVENUE	293,842	130,883	424,725
	EXPENSES			
	Administrative:			
911	Administrative salaries	55,242	-	55,242
912	Auditing fees	3,000	-	3,000
914	Compensated absences	3,689	-	3,689
915	Employee benefit contributions- administrative	44,861	-	44,861
916	Other operating- administrative	15,544	-	15,544
	Total Administrative	122,336	-	122,336
	Tenant services:			
924	Tenant services - other	375	-	375
	Utilities:			
931	Water	19,120	-	19,120
932	Electricity	67,425	-	67,425
	Total Utilities	86,545	-	86,545
	Maintenance:			
941	Ordinary maintenance and operations - labor	34,087	-	34,087
942	Ordinary maintenance and operations - materials & other	18,543	-	18,543
943	Ordinary maintenance and operations - contract costs	11,076	-	11,076
945	Employee benefit contributions- ordinary maintenance	24,799	-	24,799
	Total Maintenance	88,505	-	88,505

See accompanying notes to financial statements.

ANDERSON, TACKMAN & COMPANY, P.L.C.
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ONTONAGON HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	General expenses:			
961	Insurance premiums	10,097	-	10,097
963	Payments in lieu of taxes	5,950	-	5,950
964	Bad debt - tenant rents	369	-	369
	Total General Expenses	16,416	-	16,416
969	TOTAL OPERATING EXPENSES	314,177	-	314,177
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(20,335)	130,883	110,548
974	Depreciation expense	86,700	-	86,700
900	TOTAL EXPENSES	400,877	-	400,877
	Other financing sources (uses)			
1001	Operating Transfers In	111,388	-	111,388
1002	Operating Transfers Out	-	(111,388)	(111,388)
1010	Total other financing sources (uses)	111,388	(111,388)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	$ 4,353	$ 19,495	$ 23,848
MEMO account information				
1103	Beginning equity	$ 1,036,307	$ -	$ 1,036,307
1120	Unit months available	720	-	720
1121	Number of unit months leased	677	-	677

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*

Board of Commissioners
Ontonagon Housing Commission
Ontonagon, Michigan

We have audited the financial statements of the business-type activities of the Ontonagon Housing Commission as of and for the year ended June 30, 2006, which collectively comprise the Ontonagon Housing Commission's basic financial statements, and have issued our report thereon dated February 21, 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 the Ontonagon Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Ontonagon Housing Commission in a separate letter dated February 21, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontonagon Housing Commission's general purpose 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.*

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

February 21, 2007

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

ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

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

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

February 21, 2007

Board of Commissioners
Ontonagon Housing Commission
Ontonagon, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Ontonagon Housing Commission for the year ended June 30, 2006, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 20, 2007, on the financial statements of the Ontonagon Housing Commission.

1. During the review of cash disbursements it was noted that the individual charge slips for the vendor "Carquest" were not attached to the invoice.

   Recommendation

   The Commission needs to require the maintenance men to turn in ALL individual charges slips from all vendors each month. The executive director should then accumulate those charge slips each month and compare them to the invoice at the end of the month once it is received. The individual charge slips should then be attached to the invoice upon approval for payment.

   It is imperative that the executive director enforce this practice and policy with all staff. This procedure should be performed each month so as to verify that the Commission is being charged properly from its vendors.

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

2. During the review of tenant files and tenant receipts it was noted that the Commission still accepts cash payments for tenant rents.

   Recommendation

   The Commission should consider changing its policies relative to accepting cash from tenants for their rent. It is important in any environment where limited staff is employed and segregation of duties is difficult to obtain. The policy of not accepting cash for payment of tenant rent would minimize the Commission's exposure to possible issues due to the lack of segregation of duties.

3. During the review of disbursements it was noted that the Commission does not approve time cards.

   Recommendation

   The Executive Director should review and sign off for approval all time cards.

4. During the review of disbursements it was noted that statements were cancelled but not the individual invoices upon payment.

   Recommendation

   The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA
Principal