

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	STURGIS HOUSING COMMISS	County	ST JOSEPH	Type	CITY	MuniCode	75-7-517
Opinion Date	Mar 15, 2008	Audit Submitted	Jun 18, 2008	Fiscal Year	2007		

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

- 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- 5. Did the local unit adopt a budget for all required funds?
- 6. Was a public hearing on the budget held in accordance with State statute?
- 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- 12. Is the local unit free of repeated reported deficiencies from previous years?
- 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- 18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 342,131.00
General Fund Expenditure:	\$ 424,566.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 888,214.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JOHN	Last Name	DIPIERO	Ten Digit License Number	1101011469				
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CPA Firm Name	JOHN C DIPIERO, CPA, PC	Unit's Street Address	128 S NOTTAWA STR	City	STURGIS	Zip Code	49091		

STURGIS HOUSING COMMISSION

Financial Statements

September 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	10
Combining Statement of Income and Expenses	11
Status of Prior Audit Findings	12
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13
Report on Compliance Applicable to Non Major HUD Program	14
Schedule of Findings and Questioned Cost	15
Finding 1: Significant Control Deficiency-Cash Receipts	16
3: PILOT Miscalculated	17
3: Ineligible Tenant Admissions	18
4: Non Compliance with Handicap Unit Requirements	19

John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
Sturgis Housing Commission
128 S. Nottawa Street
Sturgis, Michigan 49091

Independent Auditor's Report

I have audited the financial statements of the Sturgis Housing Commission's Business Type Activities as of and for the year ended September 30, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sturgis Housing Commission as of September 30, 2007, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 15, 2008, on my consideration of the Sturgis Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

March 15, 2008

STURGIS HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

ASSETS

C-3080

CURRENT ASSETS

Cash & Cash Equivalents	\$ 167,668
Accounts Receivable	684
Prepaid Expenses	<u>15,097</u>

Total Current Assets \$ 183,449

NON CURRENT ASSETS

Land	\$ 122,920
Buildings	1,848,855
Furniture, Equipment- Dwellings	44,978
Furniture, Equipment- Administrative	66,708
Leasehold Improvements	57,873
Accumulated Depreciation	<u>(1,359,383)</u>

Total Non Current Assets 781,951

TOTAL ASSETS \$ 965,400

STURGIS HOUSING COMMISSION
Statement of Net Assets
September 30, 2007

LIABILITIES

C-3080

CURRENT LIABILITIES

Accounts Payable	\$ 50,264	
Accrued Wages & Payroll Taxes	1,599	
Accounts Payable- Other Government	8,974	
Compensated Absences	2,001	
Tenants Security Deposit	<u>14,348</u>	
<u>Total Current Liabilities</u>		\$ 77,186

Net Assets:

Investment in Fixed Assets net of Related Debt	\$ 781,951	
Unrestricted Net Assets	<u>106,263</u>	
<u>Total Net Assets</u>		<u>888,214</u>
TOTAL LIABILITIES AND NET ASSETS		\$ <u>965,400</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

STURGIS HOUSING COMMISSION
 Combined Statement of Revenues, Expenses, and Changes in Net Assets
 For the year ended September 30, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$	171,668	
Tenant Revenue-Other		7,876	
HUD Grants		133,021	
Interest Income		4,684	
Other Income		<u>24,882</u>	
<u>Total Operating Revenue</u>	\$		<u>342,131</u>

OPERATING EXPENSES

Administrative	\$	119,879	
Tenant Services		2,546	
Utility Expenses		83,354	
Ordinary Maintenance		135,130	
General Expenses		17,474	
Depreciation Expense		<u>66,183</u>	
<u>Total Operating Expenses</u>			<u>424,566</u>
<u>Operating Income (Loss)</u>	\$		<u>(82,435)</u>

NONOPERATING REVENUE (EXPENSES)

Gain (Loss) on the Sale of Fixed Assets		<u>(1,201)</u>	
<u>Income (Loss) before Contributions</u>	\$		<u>(83,636)</u>

CAPITAL CONTRIBUTIONS

		<u>88,715</u>	
<u>Changes in Net Assets</u>	\$		<u>5,079</u>
Total Net Assets- Beginning			<u>883,135</u>
Total Net Assets- Ending	\$		<u>888,214</u>

The Accompanying Notes are an Integral part of the Financial Statements

STURGIS HOUSING COMMISSION
 Combined Statement of Cash Flows
 For the Year Ended September 30, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	180,371
Payments to Suppliers		(318,966)
Payments to Employees		(107,319)
HUD Grants		221,736
Other Receipts (Payments)		<u>28,365</u>
Net Cash Provided (Used) by Operating Activities	\$	<u>4,187</u>

CASH FLOWS FROM CAPITAL AND
 RELATED FINANCING ACTIVITIES

Capital Contributions	\$	88,715
Purchases of Capital Assets		<u>(115,630)</u>
Cash Flows from Capital and Financing Activities	\$	<u>(29,915)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(25,728)
Cash Balance- Beginning of Year		<u>193,396</u>
Cash Balance- End of Year	\$	<u>167,668</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
 CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Operating Profit or (Loss)	\$	(82,435)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		66,183
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		827
Prepaid Expenses		(11,097)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		40,756
Accrued Liabilities		2,971
Accounts Payable-Other Governments		(15,897)
Accrued Compensated Absences		2,001
Security Deposits		<u>878</u>
Net Cash Provided by Operating Activities	\$	<u>4,187</u>

The Accompanying Notes are an Integral part of the Financial Statements

STURGIS HOUSING COMMISSION
Notes to Financial Statements
September 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Sturgis Housing Commission, Sturgis, Michigan, (Commission) was created by ordinance of the city of Sturgis. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 69-1	Low rent program	71 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that 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, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Note 2: Cash.

The composition of cash is as follows:

Cash:

General Fund Checking Accounts	\$ 167,409
Petty Cash	<u>259</u>
Financial Statement Total	\$ <u>167,668</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 166,838	\$	\$	\$ 166,838	\$ 166,838
Petty Cash	<u>259</u>			<u>259</u>	<u>259</u>
Total Cash	<u>\$ 167,097</u>	<u>\$</u>	<u>\$</u>	<u>\$ 167,097</u>	<u>\$ 167,097</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 122,920	\$	\$	\$ 122,920
Buildings	1,777,846	71,009		1,848,855
Furniture & Equipment-Dwellings	50,859		5,881	44,978
Furniture & Equipment-Admin	42,202	32,179	7,673	66,708
Leasehold Improvements	<u>45,431</u>	<u>12,442</u>		<u>57,873</u>
	\$ 2,039,258	\$ 115,630	\$ 13,554	\$ 2,141,334
Less Accumulated Depreciation	<u>1,306,754</u>	<u>66,183</u>	<u>13,554</u>	<u>1,359,383</u>
	<u>\$ 732,504</u>	<u>\$ 49,447</u>	<u>\$ 0</u>	<u>\$ 781,951</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 11,097
Supplies Inventory	<u>4,000</u>
	<u>\$ 15,097</u>

Notes to Financial Statements- continued

Note 5: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 6: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 5,404,583
General Liability	2,000,000
Dishonesty Bond	2,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Sturgis Housing Commission

30-Sep-07

MI-069

Line Item #	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	153,320		153,320
112	Cash - restricted - modernization and developmer		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	14,348	-	14,348
100	Total cash	167,668	-	167,668
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project		-	-
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling reni	684		684
126.1	Allowance for doubtful accounts - dwelling rent	-		-
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl			-
120	Total receivables, net of allowances for doubtful account	684	-	684
	Current investments:			
131	Investments - unrestrictec	-		-
132	Investments - restrictec			-
142	Prepaid expenses and other asset	11,097	-	11,097
143	Inventories	4,000	-	4,000
143.1	Allowance for obsolete inventorie	-	-	-
144	Interprogram - due fron	-	35,000	35,000
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	183,449	35,000	218,449
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	122,920	-	122,920
162	Buildings	1,801,152	47,703	1,848,855
163	Furniture, equipment & machinery - dwelling	44,269	709	44,978
164	Furniture, equipment & macinery - administratio:	38,847	27,861	66,708
165	Leasehold improvement:	22,873	35,000	57,873
166	Accumulated depreciator	(1,359,359)	(24)	(1,359,383)
160	Total fixed assets, net of accumulated depreciatio	670,702	111,249	781,951
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debit:			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	670,702	111,249	781,951
190	TOTAL ASSETS	854,151	146,249	1,000,400

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	15,264	35,000	50,264
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	1,599	-	1,599
322	Accrued compensated absence	2,001	-	2,001
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program			-
332	Accounts Payable - PHA Project			-
333	Accounts payable - other government	8,974	-	8,974
341	Tenant security deposits	14,348	-	14,348
342	Deferred revenues	-	-	-
343	Current portion of Long-Term debt - capital project		-	-
344	Current portion of Long-Term debt - operating borrowing		-	-
345	Other current liabilities	-	-	-
346	Accrued liabilities - other	-	-	-
347	Inter-program - due to	35,000	-	35,000
310	TOTAL CURRENT LIABILITIES	77,186	35,000	112,186
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	-	-	-
354	Accrued Compensated Absences- Non Current	-	-	-
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	77,186	35,000	112,186
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guarantee	-	-	-
504	Net HUD PHA contributions	-	-	-
505	Other HUD contributions	-	-	-
507	Other contributions	-	-	-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	670,702	111,249	781,951
	Reserved fund balance			
509	Reserved for operating activities			-
510	Reserved for capital activities	-	-	-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Asset	106,263		106,263
513	TOTAL EQUITY	776,965	111,249	888,214
600	TOTAL LIABILITIES AND EQUITY	854,151	146,249	1,000,400

Sturgis Housing Commission

30-Sep-07

MI-069

Combining Income Statement		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	171,668		171,668
704	Tenant revenue - other	7,876	-	7,876
705	Total tenant revenue	179,544	-	179,544
706	HUD PHA grants	132,683	89,053	221,736
708	Other government grants			-
711	Investment income - unrestricted	4,684	-	4,684
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	24,882		24,882
716	Gain or loss on the sale of fixed asset	(1,201)		(1,201)
720	Investment income - restricte			-
700	TOTAL REVENUE	340,592	89,053	429,645
	EXPENSES:			
	Administrative			
911	Administrative Salaries	55,827	-	55,827
912	Auditing Fees	3,520		3,520
913	Outside management fee:			-
914	Compensated absence:	2,001		2,001
915	Employee benefit contributions-administrativ	20,252	-	20,252
916	Other operating administrative	37,941	338	38,279
	Tenant services			
921	Tenant services - salarie:	-	-	-
922	Relocation costs:			-
923	Employee benefit contributions- tenant service	-	-	-
924	Tenant services - othe:	2,546	-	2,546
	Utilities			
931	Water	3,106	-	3,106
932	Electricity	68,690	-	68,690
933	Gas	6,244	-	6,244
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilitie			-
938	Other utilities expense	5,314		5,314
	Ordinary maintenance & operatior			
941	Ordinary maintenance and operations - labo	51,492	-	51,492
942	Ordinary maintenance and operations - materials & othe	20,272	-	20,272
943	Ordinary maintenance and operations - contract cost	46,628	-	46,628
945	Employee benefit contributions- ordinary maintenanc	16,738	-	16,738
	Protective services:			
951	Protective services - labo			-

STURGIS HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2007

The prior audit of the Sturgis Housing Commission for the period ended September 30, 2006, did not contained any audit findings.

STURGIS HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2007

I have audited the financial statements of the Sturgis Housing Commission of Sturgis, Michigan, as of and for the year ended September 30, 2007, and have issued my report thereon dated March 15, 2008. I conducted my 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 my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Sturgis 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. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
March 15, 2008

STURGIS HOUSING COMMISSION
Findings, Recommendations and Replies
September 30, 2007

The following finding of the Sturgis Housing Commission, for the year ended September 30, 2007, were discussed with the Executive Director, Mr. Jamie Blasius, in an exit interview conducted January 18, 2008.

Finding 07-01 Significant Control Deficiency- Cash Receipts

The Commission accepts cash for rent payments, and uses the petty cash fund to make change for rent payments. The cash receipts program does not summarize the deposit by receipt number; the cash receipts are recorded manually then transferred to a computerized system.

Recommendation

The Commission uses an unusual cash receipts system, it lacks basic identification characteristics. The system does not identify the payment by a traditional cash receipt number, it also does not identify the payer by name, but rather by unit number. The deposit can be identified after a lengthy research, but is not readily identifiable.

Payments are made in cash, however, no cash drawer exists. The Director or Secretary take payments, the secretary records the deposit and prepares the deposit slip- then takes the deposit to the bank. Change is made using the petty cash fund; therefore, the petty cash fund is not an imprest fund, but rather a loosely kept change drawer which is also used as a petty cash fund.

I recommend the Commission consider a more traditional cash receipts system that summarizes receipts by receipt number; also provides basic information such as name, amount, account charged, cash receipt number, date, receipted by, payment type, etc. The petty cash fund should be used strictly for petty cash; a change drawer should be created if the Commission continues to collect cash. The change drawer should be used exclusively for collections and reconciled daily; an individual should be assigned to the drawer and it should be secured.

Reply

The current receipt system does record receipts by number. It also records the amount due, the amount paid, the date and the payment type. The system also records which person received the payment. However, the normal two person office had three employees, so for a brief period of time two employees were sharing one work station and therefore could not separate which employee received the payment. That is no longer a factor because the temporary employee is no longer with the Sturgis Housing Commission.

Since many of the Sturgis Housing Commission residents do not have a bank account, refusing cash payments for rent would put an undue financial burden on many of them. The Sturgis Housing Commission does not keep cash on hand for making change; therefore, it is occasionally necessary to use petty cash to make change. This is preferable to keeping more cash on hand thirty days a month just to make change a few times early in each month. All cash is secured in the office safe at all times.

Finding 7-3 PILOT Miscalculated

Michigan Housing Commissions are eligible to reduce PILOT by a ratio equal to the total millage rate levied on non-homestead property in the current year by the total millage levied on all property in 1993.

The PILOT calculation in the current year did not consider the above ratio.

Recommendation

Public Act 338 of 1996 mandated any municipality must accept a reduced PILOT if the above ratio is greater than 1.00.

I recommend the Commission recalculate the current year PILOT and adjust the payment accordingly; in the future the Commission should apply the above formula in calculating PILOT.

Reply

The Sturgis Housing Commission is currently in negotiations with the City of Sturgis to adjust past PILOT payments. In the future, the Sturgis Housing Commission will use the formula to calculate the PILOT payment.

Finding 7-3 Unauthorized Admission- Prior Director

The prior Director was provided with housing in a senior only building; she was not a senior or disabled, she was not on the waiting list.

Recommendation

The Commission violated several rules of admission granting the prior director the right to live in the building as a part of her employment contract. Once HUD became aware of the situation, they allowed her to stay provided she pay a fair market rent. The director has been terminated and that problem has been resolved, however, two other tenants have been admitted since than and were not elderly or disabled; the Commission needs to revisit the admission policy and follow the policy.

Reply

The residents in question were actually moved into the Sturgis Housing Commission prior to the termination of the previous Executive Director. The residents in question have since become eligible to live in senior or disabled housing. The Sturgis Housing Commission has received paperwork verifying their disability and HUD has concurred that the proper paperwork is in place.

Finding 7-4 Commission has not Complied with the Handicap Unit Requirement

The Commission must provide at least 5% of all units to be Code Section 504 compliant- Handicap accessible. The Commission has not obtained a waiver or complied.

Recommendation

The Commission needs to consult with HUD concerning a possible waiver from the rules or commit future capital funds to renovate the units to be handicap compliant.

Reply

HUD has been contacted and they have recommended that the Sturgis Housing Commission modify one apartment per year for the next four years. Forum Architects are scheduled to do a CAN and they will include the costs of changing apartments to comply with 504 requirements. At this time plans are in place to begin compliance in 2008.