

BAY COUNTY HOUSING DEPARTMENT

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

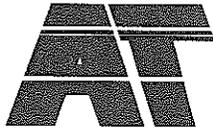
For the Year Ended December 31, 2007

BAY COUNTY HOUSING DEPARTMENT

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

A Regional Firm with Offices in Michigan and Wisconsin

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Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Bay County Board of Commissioners
Bay County Housing Department
Bay County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Bay County Housing Department as of and for the year ended December 31, 2007 which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bay County Housing Department as of December 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the Bay County Housing Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bay County Housing Department's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

June 6, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Bay County Housing Department's financial performance provides an overview of the financial activities for the year ended December 31, 2007. Please read it in conjunction with the Department's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Department were \$2,835,957 for the year ended December 31, 2007 compared to \$2,925,517 for the year ended December 31, 2006.
- The Department's operating revenues totaled \$476,509 for the year ended December 31, 2007 and \$417,073 for the year ended December 31, 2006, while operating expenses totaled \$619,345 for the year ended December 31, 2007 and \$566,167 for the year ended December 31, 2006.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Department as a whole and present a longer-term view of the Department's finances.

REPORTING THE DEPARTMENT AS A WHOLE

Our analysis of the Department as a whole begins on page 9. One of the most important questions asked about the Department's finances is "Is the Department, 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 Department 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 Department's *net assets* and changes in them. You can think of the Department's net assets – the difference between assets and liabilities – as one way to measure the Department's financial health, or *financial position*. Over time, *increases or decreases* in the Department'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 Department's activities are reported as business-type activities:

- Business-type activities – The Department charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE DEPARTMENT'S MOST SIGNIFICANT FUNDS

Our analysis of the Department's major activities begins on page 9. The financial statements provide detailed information on all of the Department's activities. The Department uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Department charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. The Department's activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE DEPARTMENT AS A WHOLE

The Department's combined net assets for the year ended December 31, 2007 decreased \$(89,560) from the year ended December 31, 2006.

Table 1

NET ASSETS

	December 31,	
	2007	2006
Assets		
Current assets	\$ 548,856	\$ 470,009
Capital assets (net)	<u>2,390,552</u>	<u>2,554,600</u>
Total assets	<u>2,939,408</u>	<u>3,024,609</u>
Liabilities		
Current liabilities	90,800	87,551
Noncurrent liabilities	<u>12,651</u>	<u>11,541</u>
Total liabilities	<u>103,451</u>	<u>99,092</u>
Net Assets		
Invested in capital assets, net of related debt	2,390,552	2,554,600
Unrestricted	<u>445,405</u>	<u>370,917</u>
Net Assets	<u>\$ 2,835,957</u>	<u>\$ 2,925,517</u>

Net assets of the Department stood at \$2,835,957 for the year ended December 31, 2007 compared to \$2,925,517 for the year ended December 31, 2006. Unrestricted net business assets were \$445,405 for the year ended December 31, 2007 compared to \$370,917 for the year ended December 31, 2006. In general, the Department's unrestricted net assets are used to fund operations of the Department. The increase in current assets was largely due to a \$48,906 increase in accounts receivable-HUD other projects. The increase in current liabilities was largely due to a \$3,255 increase in accounts payable-other government.

CHANGE IN NET ASSETS

	Year Ended December 31,	
	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 250,837	\$ 238,381
Program grants and subsidies	229,438	214,009
General revenues:		
Other revenues	31,239	8,625
Unrestricted investment earnings	18,271	13,766
 Total revenues	 529,785	 474,781
 Program Expenses:		
Operating expenses	619,345	566,167
Interest expense	-	1,069
 Total expenses	 619,345	 567,236
 Change in net assets	 (89,560)	 (92,455)
 Net assets - beginning of period	 2,925,517	 3,017,972
 Net assets - end of period	 \$ 2,835,957	 \$ 2,925,517

BUSINESS – TYPE ACTIVITIES

Revenues for the Department totaled \$529,785 for the year ended December 31, 2007 compared to \$474,781 for the year ended December 31, 2006. The Department's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Department depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in total revenues was largely due to a \$12,465 increase in tenant rental revenue and a \$15,429 increase in program grants and subsidies. The increase in operating expenses was largely due to a \$5,320 increase in administrative expenses, a \$19,413 decrease in utility costs, and a \$39,246 increase in maintenance expenses.

CAPTIAL ASSETS

Capital Assets

The Department had \$4,949,393 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2007 compared to \$4,920,971 for the year ended December 31, 2006.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2007	2006
Land and improvements	\$ 408,471	\$ 408,471
Building and improvements	4,262,116	4,227,541
Equipment	<u>278,806</u>	<u>284,959</u>
Total	4,949,393	4,920,971
Less accumulated depreciation	<u>(2,558,841)</u>	<u>(2,366,371)</u>
NET CAPITAL ASSETS	<u>\$ 2,390,552</u>	<u>\$ 2,554,600</u>

The Department invested \$34,575 in capital assets during the year ended December 31, 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Department's appointed officials considered many factors when setting the budget for the calendar year 2008. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Department. All of these were taken into consideration during the 2008 budget process.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Department's Executive Director, Marie Hayes, at 798 N. Pine Road, Essexville, Michigan 48732, or call 989-895-8191.

BAY COUNTY HOUSING DEPARTMENT

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2007

CURRENT ASSETS:	
Cash and equivalents	\$ 240,819
Accounts receivable	68,057
Investments	196,324
Prepaid expenses	<u>43,656</u>
TOTAL CURRENT ASSETS	<u>548,856</u>
NONCURRENT ASSETS:	
Capital assets	4,949,393
Less accumulated depreciation	<u>(2,558,841)</u>
NET CAPITAL ASSETS	<u>2,390,552</u>
TOTAL ASSETS	<u>2,939,408</u>
CURRENT LIABILITIES:	
Accounts payable	21,331
Accrued liabilities	59,186
Compensated absences	<u>10,283</u>
TOTAL CURRENT LIABILITIES	90,800
NONCURRENT LIABILITIES:	
Compensated absences	<u>12,651</u>
TOTAL LIABILITIES	<u>103,451</u>
NET ASSETS:	
Investment in capital assets, net of related debt	2,390,552
Unrestricted net assets	<u>445,405</u>
NET ASSETS	<u>\$ 2,835,957</u>

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





BAY COUNTY HOUSING DEPARTMENT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 619,345	\$ 250,837	\$ 194,863	\$ 34,575
				\$ (139,070)
General revenues:				
Unrestricted investment earnings				18,271
Other				31,239
Total general revenues				49,510
Change in net assets				(89,560)
NET ASSETS, beginning of year				2,925,517
NET ASSETS, end of year				\$ 2,835,957

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

BAY COUNTY HOUSING DEPARTMENT

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

For the Year Ended December 31, 2007

OPERATING REVENUES:

Tenant revenue	\$ 250,837
Program grants-subsidies	194,863
Other revenue	<u>30,809</u>

TOTAL OPERATING REVENUES 476,509

OPERATING EXPENSES:

Administration	153,002
Tenant services	4,917
Utilities	71,140
Maintenance	144,474
General	38,649
Other	8,540
Depreciation	<u>198,623</u>

TOTAL OPERATING EXPENSES 619,345

OPERATING (LOSS) (142,836)

NONOPERATING REVENUES AND (EXPENSES):

Capital grants	34,575
Interest income	18,271
Gain (loss) on sale of capital assets	<u>430</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES) 53,276

CHANGE IN NET ASSETS (89,560)

NET ASSETS, BEGINNING OF YEAR 2,925,517

NET ASSETS, END OF YEAR \$ 2,835,957

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

BAY COUNTY HOUSING DEPARTMENT

**STATEMENT OF CASH FLOWS
Proprietary Fund**

For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 235,183
Cash received from grants and subsidies	145,957
Cash payments to suppliers for goods and services	(254,461)
Cash payments for wages and related benefits	(164,643)
Cash payments for payments in lieu of taxes	(12,949)
Other receipts	<u>30,809</u>

NET CASH (USED) BY OPERATING ACTIVITIES (20,104)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(34,575)
Cash received from capital grants	34,575
Proceeds from sale of capital assets	<u>430</u>

NET CASH PROVIDED FROM CAPITAL AND RELATED FINANCING ACTIVITIES 430

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(5,455)
Investment income	<u>17,192</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES 11,737

NET (DECREASE) IN CASH AND EQUIVALENTS (7,937)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 248,756

CASH AND EQUIVALENTS, END OF YEAR \$ 240,819

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

Operating income (loss)	\$ (142,836)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	198,623
Changes in assets and liabilities:	
Decrease (Increase) in accounts receivable	(64,560)
Decrease (Increase) in prepaid expenses	(15,690)
Increase (Decrease) in accounts payable	1,425
Increase (Decrease) in accrued liabilities	<u>2,934</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (20,104)

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



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Bay County Housing Department (Department) was formed by Bay County. The Department operates under the direct supervision of the Bay County Executive and under the budgetary control of the Bay County Board of Commissioners.

The Department manages 100 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 Department for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included 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 Bay County Housing Department, and that the Housing Department is an enterprise fund of Bay County, Michigan.

The accounting policies of the Department 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 Department 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 Department as a whole. They include all business-type activities of the Department. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows are presented using the economic resource measurement focus as defined below.

- a. The Department 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 Department'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.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Department’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 Department has adopted a capitalization policy for capital assets of \$5,000 per item.

- e. Compensated Absences - It is the Department’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 Department. 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.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Department 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.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Department's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 125
Checking accounts	226,642
Savings account	<u>14,052</u>
 TOTAL	 <u>\$ 240,819</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. State law does not require, and the Department does not have a policy for deposit custodial credit risk. As of December 31, 2007, the Department held cash and equivalents in excess of insured amounts of \$139,893 which were collateralized with U.S. Treasury bonds, having a fair market value of \$441,366 at December 31, 2007.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>
		<u>Less Than 1 Year</u>
Certificates of Deposit	<u>\$196,324</u>	<u>\$196,324</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Department 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 Department's investments may not be returned. State law does not require and the Department does not have a policy for investment custodial credit risk. As of December 31, 2007, the Department held investments in excess of insured amounts of \$11,019 which were collateralized with U.S. Treasury bonds having a fair market value of \$441,366 at December 31, 2007.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the *Department's* investments. State law limits the allowable investments as described above. The Department 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 Department has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Department's investments outlined above. The Department's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Department places no limit on the amount the Department may invest in one issuer. However, the Department is required to have all funds in excess of insured amounts to be collateralized. The Department's investments and balances are with the following financial institution:

National City Bank, Royal Oak, MI	\$111,019
Chemical Bank, Bay City, MI	<u>85,305</u>
Total	<u>\$196,324</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2007 is as follows:

	Balance <u>1-1-07</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-07</u>
Land and improvements	\$ 408,471	\$ -	\$ -	\$ 408,471
Building and improvements	4,227,541	34,575	-	4,262,116
Equipment	284,959	-	(6,153)	278,806
Construction in progress	<u>-</u>	<u>44,948</u>	<u>(44,948)</u>	<u>-</u>
	4,920,971	<u>\$ 79,523</u>	<u>\$ (51,101)</u>	4,949,393
Accumulated depreciation	<u>(2,366,371)</u>	<u>\$(198,623)</u>	<u>\$ 6,153</u>	<u>(2,558,841)</u>
Net capital assets	<u>\$2,554,600</u>			<u>\$2,390,552</u>

Depreciation expense for the year was \$198,623.



BAY COUNTY HOUSING DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE D - RISK MANAGEMENT

The Department 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 Department maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Department. 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 Department is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2007 totaled \$529,785 of which \$229,438 or 43.3% 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 Housing Department employees are considered employees of Bay County, Michigan. Bay County contributes to a single employer plan called the Bay County Employees' Retirement System which is established under MCL 46.12a. The related pension disclosures are included in the financial statements of Bay County, Michigan. Total contributions for Housing Department employees totaled \$-0- due to the funding status of the plan.





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

**SUPPLEMENTAL
INFORMATION**

BAY COUNTY HOUSING DEPARTMENT

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 220,831	\$ -	\$ 220,831
114	Cash - tenant security deposits	19,988	-	19,988
100	Total cash	<u>240,819</u>	<u>-</u>	<u>240,819</u>
Accounts and notes receivables:				
122	Accounts receivable - HUD other projects	45,958	2,948	48,906
125	Accounts receivable - miscellaneous	15,687	-	15,687
126	Accounts receivable - tenants - dwelling rents	47	-	47
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-
129	Accrued interest receivable	3,417	-	3,417
120	Total receivables, net of allowances for doubtful accounts	<u>65,109</u>	<u>2,948</u>	<u>68,057</u>
Other current assets:				
131	Investments - Unrestricted	196,324	-	196,324
142	Prepaid expenses and Other Assets	43,656	-	43,656
144	Interprogram due from	2,948	-	2,948
150	TOTAL CURRENT ASSETS	<u>548,856</u>	<u>2,948</u>	<u>551,804</u>
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	90,538	-	90,538
162	Buildings	4,227,541	34,575	4,262,116
163	Furniture, equipment & machinery - dwellings	83,384	-	83,384
164	Furniture, equipment & machinery - administration	195,422	-	195,422
165	Leasehold improvements	317,933	-	317,933
166	Accumulated depreciation	<u>(2,557,834)</u>	<u>(1,007)</u>	<u>(2,558,841)</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,356,984</u>	<u>33,568</u>	<u>2,390,552</u>
180	TOTAL NONCURRENT ASSETS	<u>2,356,984</u>	<u>33,568</u>	<u>2,390,552</u>
190	TOTAL ASSETS	<u>\$ 2,905,840</u>	<u>\$ 36,516</u>	<u>\$ 2,942,356</u>

See accompanying notes to financial statements



BAY COUNTY HOUSING DEPARTMENT

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 21,331	\$ -	\$ 21,331
321	Accrued wages / payroll taxes payable	19,932	-	19,932
322	Accrued compensated absences - current	10,283	-	10,283
333	Accounts payable - other government	16,204	-	16,204
341	Tenant security deposits	19,988	-	19,988
342	Deferred revenues	3,062	-	3,062
347	Interprogram due to	-	2,948	2,948
310	TOTAL CURRENT LIABILITIES	<u>90,800</u>	<u>2,948</u>	<u>93,748</u>
354	Accrued compensated absences - non current	12,651	-	12,651
350	TOTAL NONCURRENT LIABILITIES	<u>12,651</u>	<u>-</u>	<u>12,651</u>
300	TOTAL LIABILITIES	<u>103,451</u>	<u>2,948</u>	<u>106,399</u>
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	2,356,984	33,568	2,390,552
512.1	Unrestricted net assets	445,405	-	445,405
513	TOTAL NET ASSETS	<u>2,802,389</u>	<u>33,568</u>	<u>2,835,957</u>
600	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,905,840</u>	<u>\$ 36,516</u>	<u>\$ 2,942,356</u>

See accompanying notes to financial statements



BAY COUNTY HOUSING DEPARTMENT

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	250,837	-	250,837
705	Total tenant revenue	250,837	-	250,837
706	HUD PHA grants	175,017	19,846	194,863
706.1	Capital grants	-	34,575	34,575
711	Investment income - unrestricted	18,271	-	18,271
715	Other revenue	30,809	-	30,809
716	Gain/loss on sale of fixed assets	430	-	430
700	TOTAL REVENUE	475,364	54,421	529,785
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	72,874	-	72,874
912	Auditing fees	4,800	-	4,800
914	Compensated absences	2,026	-	2,026
915	Employee benefit contributions- administrative	22,591	-	22,591
916	Other operating- administrative	50,711	-	50,711
	Total Administrative	153,002	-	153,002
Tenant services:				
924	Tenant services - other	4,917	-	4,917
Utilities:				
931	Water	24,860	-	24,860
932	Electricity	21,337	-	21,337
933	Gas	24,943	-	24,943
	Total Utilities	71,140	-	71,140

See accompanying notes to financial statements



BAY COUNTY HOUSING DEPARTMENT

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
Maintenance:				
941	Ordinary maintenance and operations - labor	51,959	-	51,959
942	Ordinary maintenance and operations - materials & other	22,351	10,629	32,980
943	Ordinary maintenance and operations - contract costs	40,792	-	40,792
945	Employee benefit contributions- ordinary maintenance	18,743	-	18,743
	Total Maintenance	<u>133,845</u>	<u>10,629</u>	<u>144,474</u>
General expenses:				
961	Insurance premiums	23,106	-	23,106
963	Payments in lieu of taxes	16,204	-	16,204
964	Bad debts - tenant rents	(661)	-	(661)
	Total General Expenses	<u>38,649</u>	<u>-</u>	<u>38,649</u>
969	TOTAL OPERATING EXPENSES	<u>401,553</u>	<u>10,629</u>	<u>412,182</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>73,811</u>	<u>43,792</u>	<u>117,603</u>
971	Extraordinary maintenance	8,540	-	8,540
974	Depreciation expense	197,616	1,007	198,623
900	TOTAL EXPENSES	<u>607,709</u>	<u>11,636</u>	<u>619,345</u>
Other financing sources (uses)				
1001	Operating Transfers In	9,217	-	9,217
1002	Operating Transfers Out	-	(9,217)	(9,217)
1010	Total other financing sources (uses)	<u>9,217</u>	<u>(9,217)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (123,128)</u>	<u>\$ 33,568</u>	<u>\$ (89,560)</u>
MEMO account information				
1102	Debt principal payment - enterprise fund	\$ -	\$ -	\$ -
1103	Beginning equity	\$ 2,812,561	\$ 102,873	\$ 2,915,434
1104	Prior Period Adjustments, Equity Transfers	\$ 112,956	\$ (102,873)	\$ 10,083
1120	Unit months available	1,200	-	1,200
1121	Number of unit months leased	1,197	-	1,197

See accompanying notes to financial statements



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

Bay County Board of Commissioners
Bay County Housing Department
Bay County, Michigan

We have audited the financial statements of Bay County Housing Department as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2007-1 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay County Housing Department'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

June 6, 2008

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



BAY COUNTY HOUSING DEPARTMENT

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

Finding 2007-1

Reportable Condition:

During the audit it was noted that the Housing Department had been billed twice for the same payroll services from the County and was paid twice by the Housing Department.

Criteria:

24 CFR 85.20 requires the Department to have effective internal controls and accountability must be maintained for all funds. The Department must adequately safeguard all assets and must assure that it is used solely for authorized purposes.

Condition:

The Department did not have adequate policies and procedures that would prevent duplicate invoices from being paid twice.

Questioned Costs:

None

Effect:

With adequate and effective internal control policies and procedures, duplicate invoices would be detected timely and not paid by Department personnel.

Cause:

Lack of policies and procedures over the payment of invoices.

Recommendation:

The Department should adopt policies and procedures that would require invoices to be reviewed and approved by the Executive Director prior to the preparation of checks so that duplicate invoices would be detected in a timely manner.

Management's Response:

Management agrees and has already implement policies and procedures where the Executive Director is reviewing all invoices and approving them prior to payment so that duplicate invoices would not be paid.

