



TRAVERSE CITY HOUSING COMMISSION

(A Component Unit of the City of Traverse City, Michigan)

Financial Statements (With Supplementary Information)

For the Year Ended June 30, 2015



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Traverse City Housing Commission

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Traverse City Housing Commission
Traverse City, MI

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the *Traverse City Housing Commission*, a component unit of the City of Traverse City, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 ***Traverse City Housing Commission***, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Traverse City Housing Commission's*** basic financial statements. The financial data schedules and schedule of federal expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015 on our consideration of the ***Traverse City Housing Commission's*** control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the ***Traverse City Housing Commission's*** internal control over financial reporting and compliance.

Change in Accounting Principle

As described in Note A to the financial statements, the ***Traverse City Housing Commission*** adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Smith + Klayhenwicz PC

Saginaw, Michigan

December 3, 2015

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A) *For the Year Ended June 30, 2015*

As management of the Traverse City Housing Commission we offer readers of this audit report this management's discussion and analysis of the Traverse City Housing Commission's financial activities for the fiscal year ended June 30, 2015. This discussion and analysis of the Traverse City Housing Commission's financial performance should be read in conjunction with the auditor's report and the following financial statements.

The combined financial statements reflect all of the Housing Commission's federally funded programs and activities in one place. The Housing Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" – activities similar to those found in the private sector. Enterprise Funds use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenses may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net position" refers to the difference between assets and liabilities. The Housing Commission's total net position as of June 30, 2015 was \$2,504,357. The net position decreased by \$216,109, or 7.9% from the prior year.

Revenues and contributions for the Housing Commission were \$1,793,699 for the fiscal year ended June 30, 2015. This was a decrease of \$79,683 or 4.3% from the prior year.

Expenses for the Housing Commission were \$2,009,808 for the fiscal year ended June 30, 2015. This was a decrease of \$66,515 or 3.2% from the prior year.

HUD operating grants were \$1,136,513 for the fiscal year ended June 30, 2015. This was a decrease of \$88,494 or 7.2% from the prior year. Capital contributions were \$112,515 for the fiscal year ended June 30, 2015. This was an increase of \$44,693 or 65.9% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management's & Discussion Analysis*, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section titled *Other Supplementary Information*. The Housing Commission's financial statements are presented as fund financial statements because the Housing Commission only has a proprietary fund.

Required Financial Statements

The *Statement of Net Position* includes the Housing Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Housing Commission's creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Housing Commission.

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A) *For the Year Ended June 30, 2015*

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Fund Net Position*. This statement measures the success of the Housing Commission's operations over the past year and can be used to determine whether the Housing Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Other Supplementary Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Other Supplementary Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Housing Commission's operations in more detail. The Housing Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises.

FINANCIAL ANALYSIS

Over time, changes in net position may serve as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$2,504,357 at the close of the fiscal year ended June 30, 2015 a decrease from \$2,720,466 in 2014. The decrease in net position of \$216,109 was primarily attributed to depreciation on capital assets.

The unrestricted net position was \$888,341 as of June 30, 2015. This amount may be used to meet the Housing Commission's ongoing obligations. The Housing Commission had net position classified as restricted in the amount of \$26,825 that are subject to external restrictions on how they may be used. The amount of restricted net position is restricted for unspent loan proceeds. At the end of the current fiscal year, the Housing Commission is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A)

For the Year Ended June 30, 2015

	Business-type Activities	
	2014	2015
Current and other assets	\$ 1,085,394	\$ 1,074,533
Capital assets not being depreciated	297,665	297,665
Capital assets being depreciated, net	<u>2,259,288</u>	<u>2,020,070</u>
Total assets	<u>3,642,347</u>	<u>3,392,268</u>
Liabilities, current	178,146	204,894
Liabilities, noncurrent	<u>743,735</u>	<u>683,017</u>
Total liabilities	<u>921,881</u>	<u>887,911</u>
Net position		
Net investment in capital assets	1,779,143	1,589,191
Restricted	140,499	26,825
Unrestricted	<u>800,824</u>	<u>888,341</u>
Total net position	<u>\$ 2,720,466</u>	<u>\$ 2,504,357</u>

The decrease in current assets of \$250,079 was due in large part to a decrease in the balance of capital assets.

The decrease in liabilities of \$33,970 was due in large part to the required debt payments.

The largest portion of the Housing Commission's net position reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation, net of related debt. The Housing Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. Part of the balance of net position is restricted for funding received from that may only be expended for the Housing Choice Program.

While the Statement of Net Position shows the balances in net position, the Statement of Revenues, Expenses and Changes in Fund Net Position provides answers as to the nature and source of these changes.

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A) For the Year Ended June 30, 2015

	<u>2014</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services-tenant rent	\$ 403,026	\$ 421,402
Program grants and subsidies	1,225,007	1,136,513
Capital grants	67,822	112,515
General revenues:		
Other revenue	174,572	120,153
Interest earned on deposits	<u>2,955</u>	<u>3,116</u>
Total revenues	<u>1,873,382</u>	<u>1,793,699</u>
Expenses – housing program	<u>2,076,323</u>	<u>2,009,808</u>
Increase (decrease) in net position	(202,941)	(216,109)
Net position – beginning of the year	<u>2,923,407</u>	<u>2,720,466</u>
Net position – end of the year	<u>\$ 2,720,466</u>	<u>\$ 2,504,357</u>

Revenues:

As shown in the above table, total revenues decreased by \$79,683, due in part to a decrease in Section 8 grant revenue and revenue received from tenants for various services.

Expenses:

Total expenses for the fiscal year ended June 30, 2015 were \$2,009,808 while for the fiscal year ended June 30, 2014 they were \$2,076,323. This represents a 3.2% decrease in our operating costs.

CAPITAL ASSETS

The Traverse City Housing Commission's investment in capital assets, net of related debt as of June 30, 2015 amounts to \$1,589,191. This investment in capital assets includes land, buildings, improvements, and equipment.

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A)

For the Year Ended June 30, 2015

	<u>2014</u>	<u>2015</u>
Capital assets not being depreciated		
Land	\$ 297,665	\$ 297,665
Capital assets being depreciated		
Buildings and improvements	7,738,745	7,809,547
Furniture, equipment and machinery – dwelling	94,249	95,049
Furniture, equipment and machinery – administration	<u>218,659</u>	<u>229,318</u>
Subtotal	<u>8,051,653</u>	<u>8,133,914</u>
Total capital assets	8,349,318	8,431,579
Less: accumulated depreciation	<u>(5,792,365)</u>	<u>(6,113,844)</u>
Total net capital assets	<u>\$ 2,556,953</u>	<u>\$ 2,317,735</u>

Capital assets, net of accumulated depreciation decreased by \$239,218, because the replacement of capital assets did not exceed depreciation expense.

Additional information regarding the Housing Commission's capital assets is presented in the footnotes to the financial statements.

DEBT ACTIVITY

As of the year ended June 30, 2015, the Housing Commission had \$728,544 in long-term debt outstanding compared to \$777,810 in the prior year. The decrease is a result of the Housing Commission making its required debt service payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

In 2015 the Traverse City Housing Commission will be replacing the heating units in the apartments of Riverview Terrace. Funding will be from the 2014 Capital Fund Program.

In light of the decrease in rent subsidy and Section 8 HCV Administrative Fees, the TCHC will continue their efforts to house as many participants as they can, within the authorized budget authority and decrease expenses for all programs when possible.

Traverse City Housing Commission

Management's Discussion and Analysis (MD&A)

For the Year Ended June 30, 2015

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Housing Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Tony Lentych, Executive Director
150 Pine Street
Traverse City, Michigan 49684

Traverse City Housing Commission
Statement of Net Position
June 30, 2015

Current assets

Cash and cash equivalents	\$ 830,921
Cash and cash equivalents - restricted	78,551
Cash - tenant security deposits	34,729
Investments	81,532
Accounts receivable, net	25,008
Prepaid expenses	23,792

Total current assets	1,074,533
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Noncurrent assets

Capital assets:	
Nondepreciable	297,665
Depreciable	8,133,914
Less: accumulated depreciation	(6,113,844)

Net capital assets	2,317,735
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Total assets	3,392,268
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Current liabilities

Accounts payable	18,068
Due to other governmental units	22,213
Accrued liabilities	15,589
Tenant security deposits	34,729
Unearned revenue	3,481
Current portion of long term debt	52,628
Accrued compensated absences, current portion	6,460
Other current liabilities (payable from restricted assets)	51,726

Total current liabilities	204,894
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Noncurrent liabilities

Long-term debt	675,916
Accrued compensated absences	7,101

Total noncurrent liabilities	683,017
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Total liabilities	887,911
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Net position

Net investment in capital assets	1,589,191
Restricted	26,825
Unrestricted	888,341

Total net position	\$ 2,504,357
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The accompanying notes are an integral part of these financial statements.

Traverse City Housing Commission
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2015

Operating revenues

Tenant revenue	\$ 421,402
Program grants - subsidies	1,136,513
Other revenue	<u>117,849</u>
Total operating revenues	<u>1,675,764</u>

Operating expenses

Administration	299,559
Tenant services	41,609
Utilities	182,196
Maintenance	218,108
Insurance	26,226
General	24,848
Housing assistance payments	855,907
Depreciation	<u>324,267</u>
Total operating expenses	<u>1,972,720</u>

Operating income (loss)	<u>(296,956)</u>
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Nonoperating revenues and (expenses)

Interest revenue - unrestricted	3,116
Fraud recovery	2,304
Interest expense	<u>(37,088)</u>
Total nonoperating revenues and (expenses)	<u>(31,668)</u>

Income (loss) before contributions	(328,624)
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Capital contributions	<u>112,515</u>
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Change in net position	(216,109)
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Net position - Beginning of year	<u>2,720,466</u>
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Net position - End of year	<u><u>\$ 2,504,357</u></u>
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The accompanying notes are an integral part of these financial statements.

Traverse City Housing Commission
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities	
Cash received from customers	\$ 517,777
Cash received from grants and subsidies	1,136,513
Cash payments to suppliers for goods and services	(1,242,791)
Cash payments for wages and related benefits	<u>(321,144)</u>
Net cash provided by (used in) operating activities	<u>90,355</u>
Cash flows from capital and related financing activities	
Capital grants	112,515
Acquisition of capital assets	(85,049)
Interest paid on debt	(37,088)
Principal paid on debt	<u>(49,266)</u>
Net cash provided by (used in) capital and related financing activities	<u>(58,888)</u>
Cash flows from noncapital and related financing activities	
Fraud recovery	<u>2,304</u>
Cash flows from investing activities	
Purchase of investments	(760)
Investment income	<u>3,116</u>
Net cash provided by (used in) investing activities	<u>2,356</u>
Net increase (decrease) in cash and cash equivalents	36,127
Cash and cash equivalents - beginning of year	<u>908,074</u>
Cash and cash equivalents - end of year	<u><u>\$ 944,201</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (296,956)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	324,267
Changes in assets and liabilities	
Decrease (increase) in receivables	(21,786)
Decrease (increase) in prepaid expenses	69,534
Increase (decrease) in accounts payable	7,050
Increase (decrease) in accrued liabilities	7,934
Increase (decrease) in tenant security deposits	2,298
Increase (decrease) in unearned revenue	<u>(1,986)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 90,355</u></u>
Reconciliation of cash and cash equivalents per the Statement of Net Position to the Statement of Cash Flows	
Cash and cash equivalents	\$ 830,921
Cash and cash equivalents - restricted	78,551
Cash - tenant security deposits	<u>34,729</u>
Cash and cash equivalents - end of year	<u><u>\$ 944,201</u></u>

The accompanying notes are an integral part of these financial statements.

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the *Traverse City Housing Commission* (the “*Housing Commission*”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities.

The Housing Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board Statement No. 34, with programs and projects.

Reporting Entity

The *Traverse City Housing Commission* was formed by the Commission of the City of Traverse City, Michigan under Public Act 18 of 1933 of the State of Michigan. The Housing Commission operates under a Board of Commissioners appointed by the City Mayor. Members of the Housing Commission Board may be removed by the City only for cause. The Housing Commission determines its own budget (subject to federal approval), sets rental rates and may issue debt in its own name. The City is not responsible for deficits or liabilities of the Housing Commission. However, the Housing Commission makes annual payments “in lieu of taxes” to the City. Therefore, a financial benefit exists for the City, thereby requiring that the *Traverse City Housing Commission* be reported as a discrete component unit of the City of Traverse City, Michigan.

The Housing Commission’s financial reporting entity is comprised of the special purpose government. In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14, as amended by GASB Statement No. 39, “*The Financial Reporting Entity*” and includes all component units, if any, of which the Housing Commission appoints a voting majority of the units’ Board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities that meet the criteria.

These financial statements include all activities of the Housing Commission, which include a Low Income Housing Program (136 units) and Section 8 Vouchers (208 units). These programs receive subsidies and annual contributions from the U.S. Department of Housing and Urban Development (“HUD”).

Measurement Focus and Basis of Presentation

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Housing Commission are federal grants and charges to

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

customers for services. Operating expenses include housing assistance payments, administrative expenses, tenant services, utilities, maintenance, insurance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Following is a description of the Housing Commission's programs:

Project MI080000001 accounts for the revenue and related operations of the Public and Indian Housing grant and the Capital Fund Program.

14.871 Section 8 Housing Choice Vouchers Programs, accounts for the revenue and related operations of the Section 8 vouchers grant program.

When both restricted and unrestricted resources are available for use, it is the Housing Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Equity

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits and certificates of deposits with original maturities of less than 90 days.

Cash and cash equivalents – restricted on the Statement of Net Position has been restricted for unspent loan proceeds and FSS escrow.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses.

Capital Assets

Capital assets, which include property, buildings and equipment, are reported in the financial statements. Capital assets are defined by the Housing Commission as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is recorded using the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Furniture, equipment and machinery – dwelling	7 years
Furniture, equipment and machinery – administration	5 to 10 years

Compensated Absences

It is the Housing Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days. Employees of the Housing Commission are permitted to carryover 24 hours of unused sick days from one year to the next. Liabilities are recorded based on historical trends using short-term and long-term liabilities. Upon separation from the Housing Commission, employees will be paid their balance of unused vacation days.

Other Current Liabilities

This balance consists of amounts held in the Family Self Sufficiency Escrow account.

Unearned Revenue

Unearned revenue represents tenant revenue for the subsequent year that was collected prior to the end of the current fiscal year.

Equity

Equity is classified as net position and reported as the following components:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation, cash restricted for modernization and development and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of unspent loan proceeds.

Unrestricted – Consists of all other equity that does not meet the definition of “restricted” or “net investment in capital assets”.

Revenues and Expenses

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

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures 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.

Implementation of New Accounting Standard

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Housing Commission implemented GASB Statement No. 68 during the year ended June 30, 2015. The objective of this statement is to improve accounting and financial reporting by State and local governments for Pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. Implementation of this standard resulted in no significant changes to the financial reporting and accounting of the Housing Commission's defined contribution pension plan.

NOTE B - DETAILED NOTES ON TRANSACTION CLASSES / ACCOUNTS

Deposits and Investments

At year-end, the carrying amount of the Housing Commission's deposits was as follows:

	<u>Carrying Amount</u>
Financial Statement Captions	
Cash and cash equivalents	\$ 830,921
Cash and cash equivalents – restricted	78,551
Cash – tenant security deposits	34,729
Investments	<u>81,532</u>
Total	<u>\$ 1,025,733</u>
Notes to Financial Statements	
Cash on hand	\$ 250
Demand deposits (checking)	943,951
Certificates of deposit	<u>81,532</u>
Total	<u>\$ 1,025,733</u>

Deposit and Investment Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Interest Rate Risk

The Housing Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Housing Commission's investment policy does not have specific limits in excess of State law on investment credit risk. At year-end, the Housing Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Housing Commission's deposits may not be returned. State law does not require and the Housing Commission does not have a policy for deposit custodial credit risk. At year-end, the entire amount of the Housing Commission's bank balance of \$1,039,704 was fully insured and therefore, not exposed to custodial credit risk.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Housing Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year-end, The Housing Commission had no investments and was therefore, not exposed to concentration of credit risk.

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

Accounts Receivable

The balance in accounts receivable was comprised of the following:

Due from other governments	\$	21,221
Tenant receivables		8,085
Allowance for doubtful accounts		(5,596)
Interest receivable		121
Miscellaneous receivable		<u>1,177</u>
Total receivables, net	\$	<u>25,008</u>

Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	<u>\$ 297,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,665</u>
Capital assets being depreciated				
Buildings and improvements	7,738,745	73,385	(2,583)	7,809,547
Furniture, equipment and machinery – dwelling	94,249	1,005	(205)	95,049
Furniture, equipment and machinery – administration	<u>218,659</u>	<u>10,659</u>	<u>-</u>	<u>229,318</u>
Total capital assets being depreciated	8,051,653	85,049	(2,788)	8,133,914
Less accumulated depreciation	<u>(5,792,365)</u>	<u>(324,267)</u>	<u>2,788</u>	<u>(6,113,844)</u>
Net capital assets being depreciated	<u>2,259,288</u>	<u>(239,218)</u>	<u>-</u>	<u>2,020,070</u>
Total net capital assets	<u>\$ 2,556,953</u>	<u>\$ (239,218)</u>	<u>\$ -</u>	<u>\$ 2,317,735</u>

Long-term Debt

Following is a summary of changes in long-term debt for the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
HUD loan	\$ 523,404	\$ -	\$ (27,258)	\$ 496,146	\$ 28,638
Lease / purchase agreement	254,406	-	(22,008)	232,398	23,990
Accrued compensated absences	<u>23,697</u>	<u>-</u>	<u>(10,136)</u>	<u>13,561</u>	<u>6,460</u>
Total	<u>\$ 801,507</u>	<u>\$ -</u>	<u>\$ (59,402)</u>	<u>\$ 742,105</u>	<u>\$ 59,088</u>

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

The HUD loan was entered into in 2008, has an interest rate of 4.95% and matures in 2028. The lease purchase agreement was entered into in 2013 for the purpose of acquiring energy performance equipment, has an interest rate of 2.3% and matures in 2022.

Maturities of the HUD loan and lease purchase agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 52,628	\$ 34,625
2017	56,573	31,980
2018	60,710	29,143
2019	64,424	26,103
2020	67,600	22,900
2021-2025	291,749	65,887
2026-2028	<u>134,860</u>	<u>9,664</u>
	<u>\$ 728,544</u>	<u>\$ 220,302</u>

NOTE C - OTHER INFORMATION

Concentration of Revenue

The Housing Commission is dependent upon HUD to fund its operations through operating subsidies and capital funding grants. Total revenue received from HUD for 2015 and 2014 was \$1,249,028 or 70% and \$1,292,829 or 69% of revenue, respectively.

Contingencies

Under the terms of certain Federal and State grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Housing Commission management believes disallowances, if any, would be minimal.

Risk Management

The Housing 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 Housing Commission maintains commercial insurance covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Traverse City Housing Commission

Notes to Financial Statements

For the Year Ended June 30, 2015

Employee Benefit Plan

The Housing Commission participates in a 457 Deferred Compensation Pension Plan covering full-time employees that have completed a six-month probation period. Employees are not required to contribute to the Plan, however, if they do participate, the Housing Commission matches the employee contribution to the Plan up to 3% of the employees gross salary. Once a year, the Housing Commission contributes 4% of gross wages to the Plan for all full-time employees, whether or not they participate. Upon separation, accrued funds remain the property of the employee. During the fiscal year the Housing Commission contributed a total of \$10,503 and employees contributed \$18,778 to the Plan.

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Traverse City Housing Commission
Financial Data Schedule
Project Balance Sheet
June 30, 2015

Line Item #	Account Description	Project MI080000001
111	Cash - Unrestricted	\$ 743,166
112	Cash - Restricted - Modernization and Development	26,825
114	Cash - Tenant Security Deposits	34,729
100	Total Cash	<u>804,720</u>
125	Accounts Receivable - Miscellaneous	1,177
126	Accounts Receivable - Tenants	8,085
126.1	Allowance for Doubtful Accounts - Tenants	(5,596)
129	Accrued Interest Receivable	121
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>3,787</u>
131	Investments - Unrestricted	81,532
142	Prepaid Expenses and Other Assets	<u>23,792</u>
150	Total Current Assets	<u>913,831</u>
161	Land	297,665
162	Buildings	7,809,547
163	Furniture, Equipment & Machinery - Dwellings	95,049
164	Furniture, Equipment & Machinery - Administration	226,103
166	Accumulated Depreciation	(6,110,892)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>2,317,472</u>
180	Total Non-Current Assets	<u>2,317,472</u>
190	Total Assets	<u><u>\$ 3,231,303</u></u>
312	Accounts Payable <= 90 Days	\$ 16,955
321	Accrued Wage/Payroll Taxes Payable	4,481
322	Accrued Compensated Absences - Current Portion	4,445
333	Accounts Payable - Other Government	22,213
341	Tenant Security Deposits	34,729
342	Unearned Revenues	3,481
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	52,628
346	Accrued Liabilities - Other	8,624
310	Total Current Liabilities	<u>147,556</u>
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	675,916
354	Accrued Compensated Absences - Non Current	5,651
350	Total Non-Current Liabilities	<u>681,567</u>
300	Total Liabilities	<u>829,123</u>
508.4	Net Investment in Capital Assets	1,588,928
511.4	Restricted Net Position	26,825
512.4	Unrestricted Net Position	<u>786,427</u>
513	Total Equity - Net Assets / Position	<u>2,402,180</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets / Position	<u><u>\$ 3,231,303</u></u>

Traverse City Housing Commission
Financial Data Schedule
Project Income Statement
For the Year Ended June 30, 2015

Line Item #	Account Description	Total Projects	Project MI080000001	Operating Fund Program	Capital Fund Program
70300	Net Tenant Rental Revenue	\$ 420,206	\$ 420,206	\$ 420,206	\$ -
70400	Tenant Revenue - Other	1,196	1,196	1,196	-
70500	Total Tenant Revenue	421,402	421,402	421,402	-
70600	HUD PHA Operating Grants	250,531	250,531	250,531	-
70610	Capital Grants	112,515	112,515	-	112,515
71100	Investment Income - Unrestricted	3,116	3,116	3,116	-
71500	Other Revenue	117,560	117,560	117,560	-
70000	Total Revenue	905,124	905,124	792,609	112,515
91100	Administrative Salaries	60,138	60,138	60,138	-
91200	Auditing Fees	2,850	2,850	2,850	-
91400	Advertising and Marketing	542	542	542	-
91500	Employee Benefit Contributions - Administrative	19,779	19,779	19,779	-
91600	Office Expenses	72,079	72,079	72,079	-
91700	Legal Expense	5,516	5,516	5,516	-
91800	Travel	1,819	1,819	1,819	-
91900	Other	6,737	6,737	6,737	-
91000	Total Operating - Administrative	169,460	169,460	169,460	-
92400	Tenant Services - Other	41,609	41,609	41,609	-
92500	Total Tenant Services	41,609	41,609	41,609	-
93100	Water	17,181	17,181	17,181	-
93200	Electricity	148,299	148,299	148,299	-
93300	Gas	16,716	16,716	16,716	-
93000	Total Utilities	182,196	182,196	182,196	-
94100	Ordinary Maintenance and Operations - Labor	86,306	86,306	86,306	-
94200	Ordinary Maintenance and Operations - Materials and Other	13,328	13,328	13,328	-
94300	Ordinary Maintenance and Operations Contracts	76,266	76,266	76,266	-
94500	Employee Benefit Contributions - Ordinary Maintenance	31,533	31,533	31,533	-
94000	Total Maintenance	207,433	207,433	207,433	-
96140	All Other Insurance	26,226	26,226	26,226	-
96100	Total Insurance Premiums	26,226	26,226	26,226	-
96210	Compensated Absences	(559)	(559)	(559)	-
96300	Payments in Lieu of Taxes	22,213	22,213	22,213	-
96400	Bad debt - Tenant Rents	3,511	3,511	3,511	-
96000	Total Other General Expenses	25,165	25,165	25,165	-
96710	Interest on Mortgage (or Bonds) Payable	25,295	25,295	25,295	-
96720	Interest on Notes Payable (Short and Long Term)	11,793	11,793	11,793	-
96700	Total Interest Expense and Amortization Cost	37,088	37,088	37,088	-
96900	Total Operating Expenses	689,177	689,177	689,177	-
97000	Excess of Operating Revenue over Operating Expenses	215,947	215,947	103,432	112,515
97100	Extraordinary Maintenance	10,675	10,675	10,675	-
97400	Depreciation Expense	324,248	324,248	318,995	5,253
90000	Total Expenses	1,024,100	1,024,100	1,018,847	5,253
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(118,976)	(118,976)	(226,238)	107,262
11020	Required Annual Debt Principal Payments	49,265	49,265	49,265	-
11030	Beginning Equity	2,521,156	2,521,156	2,521,156	-
11190	Unit Months Available	1,621	1,621	1,621	-
11210	Number of Unit Months Leased	1,620	1,620	1,620	-
11270	Excess Cash	658,227	658,227	658,227	-
11620	Building Purchases	59,961	59,961	-	59,961
13510	CFFP Debt Service Payments	52,554	52,554	-	52,554

Traverse City Housing Commission
Financial Data Schedule
Program Financials - Balance Sheet
June 30, 2015

Line Item #	Account Description	14.871 Housing Choice Vouchers
111	Cash - Unrestricted	\$ 87,755
115	Cash - Restricted for Payment of Current Liabilities	51,726
100	Total Cash	<u>139,481</u>
122	Accounts Receivable - HUD Other Projects	21,221
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>21,221</u>
150	Total Current Assets	<u>160,702</u>
164	Furniture, Equipment & Machinery - Administration	3,215
166	Accumulated Depreciation	(2,952)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>263</u>
180	Total Non-Current Assets	<u>263</u>
190	Total Assets	<u><u>\$ 160,965</u></u>
312	Accounts Payable <= 90 Days	\$ 1,113
321	Accrued Wage/Payroll Taxes Payable	2,484
322	Accrued Compensated Absences - Current Portion	2,015
345	Other Current Liabilities	51,726
310	Total Current Liabilities	<u>57,338</u>
354	Accrued Compensated Absences - Non Current	1,450
350	Total Non-Current Liabilities	<u>1,450</u>
300	Total Liabilities	<u>58,788</u>
508.4	Net Investment in Capital Assets	263
512.4	Unrestricted Net Position	<u>101,914</u>
513	Total Equity - Net Assets / Position	<u>102,177</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets / Position	<u><u>\$ 160,965</u></u>

Traverse City Housing Commission
Financial Data Schedule
Program Financials - Income Statement
For the Year Ended June 30, 2015

Line Item #	Account Description	14.871 Housing Choice Vouchers
70600	HUD PHA Operating Grants	\$ 885,982
71400	Fraud Recovery	2,304
71500	Other Revenue	289
70000	Total Revenue	888,575
91100	Administrative Salaries	74,450
91200	Auditing Fees	2,850
91500	Employee Benefit Contributions - Administrative	23,904
91600	Office Expenses	18,488
91700	Legal Expenses	1,397
91800	Travel	1,102
91900	Other	7,908
91000	Total Operating - Administrative	130,099
96200	Other General Expenses	930
96210	Compensated Absences	(1,247)
96000	Total Other General Expenses	(317)
96900	Total Operating Expenses	129,782
97000	Excess of Operating Revenue over Operating Expenses	758,793
97300	Housing Assistance Payments	855,907
97400	Depreciation Expense	19
90000	Total Expenses	985,708
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(97,133)
11030	Beginning Equity	199,310
11170	Administrative Fee Equity	102,177
11190	Unit Months Available	1,805
11210	Number of Unit Months Leased	1,805

Traverse City Housing Commission
Financial Data Schedule
PHA Financial Data - Balance Sheet
June 30, 2015

Line Item #	Account Description	Project Totals	Program Totals	Subtotal	Total
111	Cash - Unrestricted	\$ 743,166	\$ 87,755	\$ 830,921	\$ 830,921
112	Cash - Restricted - Modernization and Development	26,825	-	26,825	26,825
114	Cash - Tenant Security Deposits	34,729	-	34,729	34,729
115	Cash - Restricted for Payment of Current Liabilities	-	51,726	51,726	51,726
100	Total Cash	804,720	139,481	944,201	944,201
122	Accounts Receivable - HUD Other Projects	-	21,221	21,221	21,221
125	Accounts Receivable - Miscellaneous	1,177	-	1,177	1,177
126	Accounts Receivable - Tenants	8,085	-	8,085	8,085
126.1	Allowance for Doubtful Accounts - Tenants	(5,596)	-	(5,596)	(5,596)
129	Accrued Interest Receivable	121	-	121	121
120	Total Receivables, Net of Allowances for Doubtful Accounts	3,787	21,221	25,008	25,008
131	Investments - Unrestricted	81,532	-	81,532	81,532
142	Prepaid Expenses and Other Assets	23,792	-	23,792	23,792
150	Total Current Assets	913,831	160,702	1,074,533	1,074,533
161	Land	297,665	-	297,665	297,665
162	Buildings	7,809,547	-	7,809,547	7,809,547
163	Furniture, Equipment & Machinery - Dwellings	95,049	-	95,049	95,049
164	Furniture, Equipment & Machinery - Administration	226,103	3,215	229,318	229,318
166	Accumulated Depreciation	(6,110,892)	(2,952)	(6,113,844)	(6,113,844)
160	Total Capital Assets, Net of Accumulated Depreciation	2,317,472	263	2,317,735	2,317,735
180	Total Non-Current Assets	2,317,472	263	2,317,735	2,317,735
190	Total Assets	\$ 3,231,303	\$ 160,965	\$ 3,392,268	\$ 3,392,268
312	Accounts Payable <= 90 Days	\$ 16,955	\$ 1,113	\$ 18,068	\$ 18,068
321	Accrued Wage/Payroll Taxes Payable	4,481	2,484	6,965	6,965
322	Accrued Compensated Absences - Current Portion	4,445	2,015	6,460	6,460
333	Accounts Payable - Other Government	22,213	-	22,213	22,213
341	Tenant Security Deposits	34,729	-	34,729	34,729
342	Deferred Revenues	3,481	-	3,481	3,481
343	Current Portion of Long-term Debt - Capital Projects/ Mortgage Revenue Bonds	52,628	-	52,628	52,628
345	Other Current Liabilities	-	51,726	51,726	51,726
346	Accrued Liabilities - Other	8,624	-	8,624	8,624
310	Total Current Liabilities	147,556	57,338	204,894	204,894
351	Long-term Debt, Net of Current - Capital Projects/ Mortgage Revenue Bonds	675,916	-	675,916	675,916
354	Accrued Compensated Absences - Non Current	5,651	1,450	7,101	7,101
350	Total Non-Current Liabilities	681,567	1,450	683,017	683,017
300	Total Liabilities	829,123	58,788	887,911	887,911
508.4	Net Investment in Capital Assets	1,588,928	263	1,589,191	1,589,191
511.4	Restricted Net Position	26,825	-	26,825	26,825
512.4	Unrestricted Net Position	786,427	101,914	888,341	888,341
513	Total Equity - Net Assets / Position	2,402,180	102,177	2,504,357	2,504,357
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets / Position	\$ 3,231,303	\$ 160,965	\$ 3,392,268	\$ 3,392,268

Traverse City Housing Commission
Financial Data Schedule
PHA Financial Data - Income Statement
For the Year Ended June 30, 2015

Line Item #	Account Description	Project Totals	Program Totals	Subtotal	Total
70300	Net Tenant Rental Revenue	\$ 420,206	\$ -	\$ 420,206	\$ 420,206
70400	Tenant Revenue - Other	1,196	-	1,196	1,196
70500	Total Tenant Revenue	421,402	-	421,402	421,402
70600	HUD PHA Operating Grants	250,531	885,982	1,136,513	1,136,513
70610	Capital Grants	112,515	-	112,515	112,515
71100	Investment Income - Unrestricted	3,116	-	3,116	3,116
71400	Fraud Recovery	-	2,304	2,304	2,304
71500	Other Revenue	117,560	289	117,849	117,849
70000	Total Revenue	905,124	888,575	1,793,699	1,793,699
91100	Administrative Salaries	60,138	74,450	134,588	134,588
91200	Auditing Fees	2,850	2,850	5,700	5,700
91400	Advertising and Marketing	542	-	542	542
91500	Employee Benefit Contributions - Administrative	19,779	23,904	43,683	43,683
91600	Office Expenses	72,079	18,488	90,567	90,567
91700	Legal Expense	5,516	1,397	6,913	6,913
91800	Travel	1,819	1,102	2,921	2,921
91900	Other	6,737	7,908	14,645	14,645
91000	Total Operating - Administrative	169,460	130,099	299,559	299,559
92400	Tenant Services - Other	41,609	-	41,609	41,609
92500	Total Tenant Services	41,609	-	41,609	41,609
93100	Water	17,181	-	17,181	17,181
93200	Electricity	148,299	-	148,299	148,299
93300	Gas	16,716	-	16,716	16,716
93000	Total Utilities	182,196	-	182,196	182,196
94100	Ordinary Maintenance and Operations - Labor	86,306	-	86,306	86,306
94200	Ordinary Maintenance and Operations - Materials and Other	13,328	-	13,328	13,328
94300	Ordinary Maintenance and Operations Contracts	76,266	-	76,266	76,266
94500	Employee Benefit Contributions - Ordinary Maintenance	31,533	-	31,533	31,533
94000	Total Maintenance	207,433	-	207,433	207,433
96140	All Other Insurance	26,226	-	26,226	26,226
96100	Total Insurance Premiums	26,226	-	26,226	26,226
96200	Other General Expenses	-	930	930	930
96210	Compensated Absences	(559)	(1,247)	(1,806)	(1,806)
96300	Payments in Lieu of Taxes	22,213	-	22,213	22,213
96400	Bad debt - Tenant Rents	3,511	-	3,511	3,511
96000	Total Other General Expenses	25,165	(317)	24,848	24,848

Traverse City Housing Commission
Financial Data Schedule
PHA Financial Data - Income Statement
For the Year Ended June 30, 2015

Line Item #	Account Description	Project Totals	Program Totals	Subtotal	Total
96710	Interest on Mortgage (or Bonds) Payable	\$ 25,295	\$ -	\$ 25,295	\$ 25,295
96720	Interest on Notes Payable (Short and Long Term)	11,793	-	11,793	11,793
96700	Total Interest Expense and Amortization Cost	37,088	-	37,088	37,088
96900	Total Operating Expenses	689,177	129,782	818,959	818,959
97000	Excess of Operating Revenue over Operating Expenses	215,947	758,793	974,740	974,740
97100	Extraordinary Maintenance	10,675	-	10,675	10,675
97300	Housing Assistance Payments	-	855,907	855,907	855,907
97400	Depreciation Expense	324,248	19	324,267	324,267
90000	Total Expenses	1,024,100	985,708	2,009,808	2,009,808
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(118,976)	(97,133)	(216,109)	(216,109)
11020	Required Annual Debt Principal Payments	49,265	-	49,265	49,265
11030	Beginning Equity	2,521,156	199,310	2,720,466	2,720,466
11170	Administrative Fee Equity	-	102,177	102,177	102,177
11190	Unit Months Available	1,621	1,805	3,426	3,426
11210	Number of Unit Months Leased	1,620	1,805	3,425	3,425
11270	Excess Cash	658,227	-	658,227	658,227
11620	Building Purchases	59,961	-	59,961	59,961
13510	CFFP Debt Service Payments	52,554	-	52,554	52,554



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A VETERAN OWNED BUSINESS

**INDEPENDENT AUDITOR'S 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***

To the Board of Commissioners
Traverse City Housing Commission
Traverse City, MI

We have audited, 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, the financial statements of the business-type activities of the ***Traverse City Housing Commission***, a component unit of the City of Traverse City, Michigan as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the ***Traverse City Housing Commission's*** basic financial statements and have issued our report thereon dated December 3, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ***Traverse City Housing Commission's*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***Traverse City Housing Commission's*** internal control. Accordingly, we do not express an opinion on the effectiveness of the ***Traverse City Housing Commission's*** internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Travers City Housing Commission's* financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith + Klayhewig PC

Saginaw, Michigan

December 3, 2015



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Board of Commissioners
Traverse City Housing Commission
Traverse City, MI

Report on Compliance for Each Major Federal Program

We have audited the *Traverse City Housing Commission's* compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the *Traverse City Housing Commission's* major federal programs for the year ended June 30, 2015. The *Traverse City Housing Commission's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the *Traverse City Housing Commission's* major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *Traverse City Housing Commission's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the *Traverse City Housing Commission's* compliance.

Opinion on Each Major Federal Program

In our opinion, the ***Traverse City Housing Commission***, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the ***Traverse City Housing Commission*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ***Traverse City Housing Commission's*** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ***Traverse City Housing Commission's*** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith + Klayhewicz PC

Saginaw, Michigan

December 3, 2015

Traverse City Housing Commission
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Agency / Pass Through Agency / Program Title	Federal CFDA Number	Amount Expended
Department of Housing and Urban Development		
Direct programs:		
Public and Indian Housing	14.850	\$ 250,531
Section 8 Housing Choice Vouchers	14.871	919,561
Section 8 Housing Choice Vouchers - Family Self Sufficiency	14.871	66,128
Total Section 8 Housing Choice Vouchers		985,689
Public Housing Capital Fund	14.872	112,515
Total Department of Housing and Urban Development		\$ 1,348,735
Reconciliation to Statement of Activities		
Federal revenue reported on the Statement of Activities:		
Program grants - subsidies		\$ 1,136,513
Capital grants		112,515
Decrease in equity		99,707
Total expenditures per Schedule of Expenditures of Federal Awards		\$ 1,348,735

Footnotes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the **Traverse City Housing Commission** under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the **Traverse City Housing Commission**, it is not intended to and does not present the financial position or changes in net position of the **Traverse City Housing Commission**.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Subrecipients

None of the federal expenditures presented in the Schedule were provided to subrecipients.

Traverse City Housing Commission
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Type of auditors' report issued on compliance for major program(s): Unmodified

Internal control over major program(s)

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major program(s):

<u>CFDA Number</u>	<u>Name of Federal Program(s) or Cluster(s)</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualify as a low-risk auditee? X Yes _____ No

Traverse City Housing Commission
Schedule of Findings and Questioned Costs (*concluded*)
For the Year Ended June 30, 2015

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Year Audit Findings

None