

CITY OF MANISTEE HOUSING COMMISSION  
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA  
FOR THE YEAR ENDED DECEMBER 31, 2007

CITY OF MANISTEE HOUSING COMMISSION

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# Zenk & Associates, P.C.

## Certified Public Accountants

Members: American Institutes of Certified Public Accountants  
Michigan Association of Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners,  
City of Manistee Housing Commission  
Manistee, Michigan

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

We have audited the accompanying financial statements of the business-type activities of the City of Manistee Housing Commission, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Manistee Housing Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

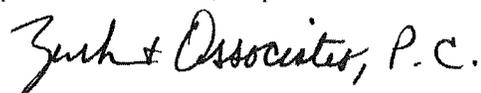
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 its business-type activities of the City of Manistee Housing Commission, as of December 31, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2008 on our consideration of the City of Manistee Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting on compliance and the results of that testing, and not to provide opinions 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 conjunction with this report in considering the results of our audit.

The management discussion and analysis on pages 2 through 8 are not a required part of the basic financial statements but are supplementary information required by the 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 opinions on the financial statements that collectively comprise the City of Manistee Housing Commission's basic financial statements. The financial data schedules and supplemental data listed in the table of contents are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and are not a required part of the basic financial statements of the City of Manistee Housing Commission. 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 Government and Non-Profit Organizations* and is not a required part of the basic financial statements of the City of Manistee Housing Commission. The financial data schedules and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



May 7, 2008

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the Manistee Housing Commission offers the readers of the financial statements this narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. Readers should consider the information presented here in conjunction with the Authority's financial statements to obtain a full understanding of its financial position.

**FINANCIAL HIGHLIGHTS**

- The assets of the Authority exceeded its liabilities at the close of the current fiscal year by \$3,337,788 (net assets) as opposed to \$3,695,973 for the prior fiscal year.
- The Authority's cash and investments balance as of the close of the current fiscal year was \$361,759 representing a decrease of \$283,009 from the prior fiscal year.
- The Authority had total revenues of \$1,252,474 and total expenses of \$1,495,761 for the current fiscal year.
- The Authority expended \$250,404 in Capital Grant Funding for improvements to the Public Housing units. In addition, \$215,542 of operational funds were expended renovating and furnishing the Administrative Office.

**REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the Authority report information using accounting methods similar to those used by private sector companies (Enterprise Fund).

The Statement of Net Assets (Balance Sheet) includes all of the Authority's assets and liabilities and provides information about the amounts and investments in assets and the obligations to Authority creditors. It also provides a basis of assessing the liquidity and financial flexibility of the Authority. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Authority is improving or deteriorating.

The current year's revenues, expenses, and changes in net assets are accounted for in the Statement of Revenues, Expenses and Net Assets. This statement measures the success of the Authority's operations over the past fiscal year.

The Statement of Cash Flows is to provide information about the Authority's cash receipts and disbursements during the reporting period. The statement reports net changes in cash resulting from operations.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The Statement of Net Assets and the Statement of Revenues, Expenses and Net Assets report information about the Authority's activities and are summarized in the following sections.

To begin our analysis, a summary of the Authority's Statement of Net Assets is presented in Table I.

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007

**Manistee Housing Commission  
Combined Statement of Net Assets  
TABLE I**

	<u>2007</u>	<u>2006</u>	<u>Total Change</u>	<u>% Change</u>
Current and Other Assets	\$ 467,489	\$ 726,484	\$ (258,995)	-35.65%
Capital Assets	<u>3,352,933</u>	<u>3,141,183</u>	<u>211,750</u>	6.74%
Total Assets	3,820,422	3,867,667	(47,245)	-1.22%
Current and Other Liabilities	126,898	122,670	4,228	3.45%
Long-Term Liabilities	<u>355,736</u>	<u>49,024</u>	<u>306,712</u>	625.64%
Total Liabilities	482,634	171,694	310,940	181.10%
Invested in Capital Assets, Net of Related Debt	3,026,933	3,141,183	(114,250)	-3.64%
Unrestricted	<u>310,855</u>	<u>554,790</u>	<u>(243,935)</u>	-43.97%
Total Net Assets	<u>3,337,788</u>	<u>3,695,973</u>	<u>(358,185)</u>	-9.69%
Total Liabilities & Net Assets	<u>\$ 3,820,422</u>	<u>\$ 3,867,667</u>	<u>\$ (47,245)</u>	-1.22%

As illustrated in the Combined Statement of Net Assets, the overall Net Assets of the Authority decreased by \$358,185. The "Invested in Capital Assets, Net of Related Debt" decreased by \$114,250 as a result of the loans on the DVG Grant program houses. Unrestricted Net Assets decreased by \$243,935 due mainly to the expenditure of over \$215,000 for renovating and furnishing the Administrative Office.

Current Assets decreased primarily due to the expenditure of operational funds for the office renovation mentioned above.

Non current Liabilities increased \$306,712 primarily as the result of the loans on the two DVG Grant houses.

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007

While the Statement of Net Assets shows the change in financial position, the Statement of Revenues, Expenses, and Net Assets breaks down our revenues and expenses further. Table II, which follows, provides a combined statement of these changes.

**Manistee Housing Commission**  
**Combined Statement of Revenues, Expenses, and Change in Net Assets**  
**TABLE II**

	<u>2007</u>	<u>2006</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenues	\$ 511,006	\$ 563,467	\$ (52,461)	-9.31%
Grant Funding	657,875	453,184	204,691	45.17%
Other Income	<u>83,593</u>	<u>611,274</u>	<u>(527,681)</u>	-86.32%
 Total Revenue	 <u>1,252,474</u>	 <u>1,627,925</u>	 <u>(375,451)</u>	 -23.06%
Administrative	446,095	424,608	21,487	5.06%
Tenant Services	52,127	5,992	46,135	769.94%
Utilities	179,225	154,468	24,757	16.03%
Maintenance	405,616	390,844	14,772	3.78%
Protective Services	2,987	2,153	834	38.74%
General	133,078	114,066	19,012	16.67%
Depreciation	<u>276,633</u>	<u>265,483</u>	<u>11,150</u>	4.20%
 Total Expenses	 <u>1,495,761</u>	 <u>1,357,614</u>	 <u>138,147</u>	 10.18%
 Change in Net Assets	 (243,287)	 270,311	 (513,598)	 -190.00%
Beginning Net Assets	3,695,973	3,425,662	270,311	7.89%
Transfer of Equity/Adjustments	<u>(114,898)</u>	<u>-</u>	<u>(114,898)</u>	100.00%
 Ending Net Assets	 <u>\$ 3,337,788</u>	 <u>\$ 3,695,973</u>	 <u>\$ (358,185)</u>	 -9.69%

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007

Table III provides the reader with a Statement of Revenues, Expenses and Change in Net Assets by Program.

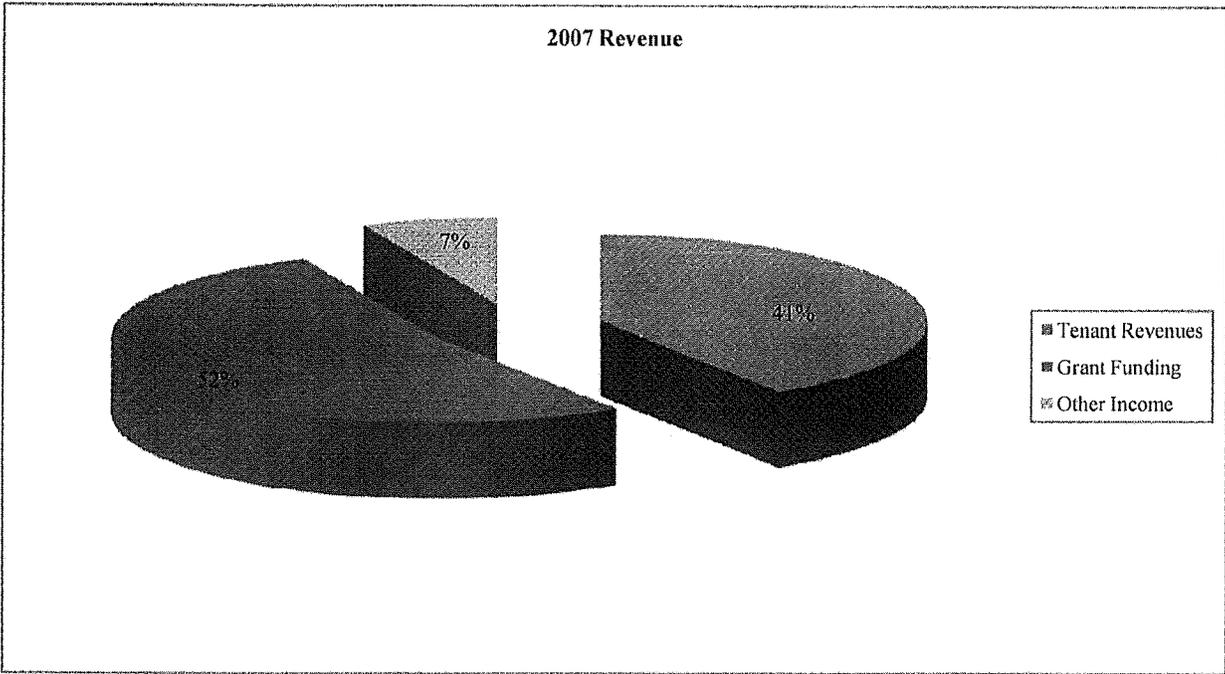
**Manistee Housing Commission**  
**Combined Statement of Revenues, Expenses, and Change in Net Assets - By Program**  
**TABLE III**

	Business Activities	Opportunities For Youthbuild	Low Rent Public Housing	Capital Fund Program	State/Local	Total
Tenant Revenues	\$ -	\$ -	\$ 510,106	\$ -	\$ 900	\$ 511,006
Grant Funding	-	46,140	361,331	250,404	-	657,875
Other Income	44,744	-	38,737	-	112	83,593
<b>Total Revenue</b>	<b>44,744</b>	<b>46,140</b>	<b>910,174</b>	<b>250,404</b>	<b>1,012</b>	<b>1,252,474</b>
Administrative	35,971	-	330,893	75,406	3,825	446,095
Tenant Services	-	46,140	5,987	-	-	52,127
Utilities	-	-	179,067	-	158	179,225
Maintenance	-	-	396,211	8,489	916	405,616
Protective Services	-	-	2,987	-	-	2,987
General	-	-	93,879	-	39,199	133,078
Depreciation	-	-	271,803	3,485	1,345	276,633
<b>Total Expenses</b>	<b>35,971</b>	<b>46,140</b>	<b>1,280,827</b>	<b>87,380</b>	<b>45,443</b>	<b>1,495,761</b>
Change in Net Assets	8,773	-	(370,653)	163,024	(44,431)	(243,287)
Beginning Net Assets	-	-	3,636,548	59,425	-	3,695,973
Operating Transfers	-	-	49,200	(49,200)	-	-
Transfer of Equity/Adj	-	-	(82,082)	(32,816)	-	(114,898)
<b>Ending Net Assets</b>	<b>\$ 8,773</b>	<b>\$ -</b>	<b>\$ 3,233,013</b>	<b>\$ 140,433</b>	<b>\$ (44,431)</b>	<b>\$ 3,337,788</b>

**REVENUES**

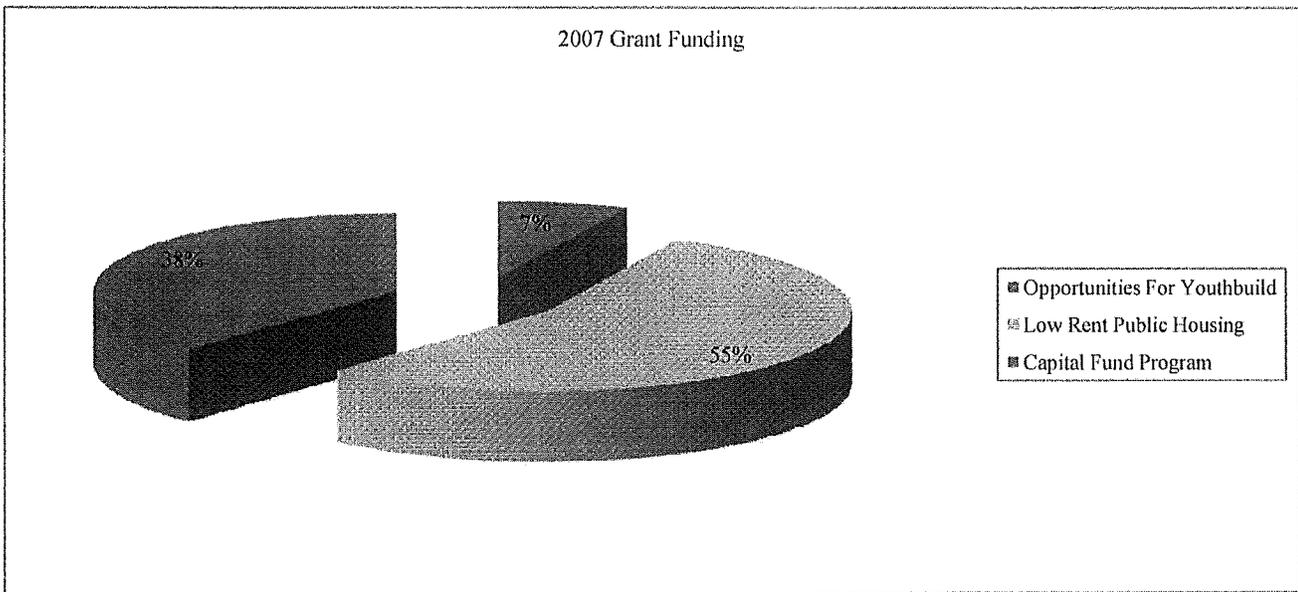
In reviewing the Statement of Revenues, Expenses, and Net Assets, you will note that 52% of the Commission's revenues are derived from grants from the Department of Housing and Urban Development and Others. The Commission received revenue from tenants for dwelling rental charges, excess utilities, and miscellaneous charges of 41% of total revenue. Other Revenue including Interest from Investments comprised the remaining 7%. Compared to the Fiscal Year Ended December 31, 2006, revenues had an overall decrease of \$375,451 (23.06%) as the result of no large fraud recovery like last year that was partially offset by increased grant funding. Tenant revenue dropped due to local economic conditions.

CITY OF MANISTEE HOUSING COMMISSION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2007



**Tenant Revenue** - Tenant Revenue decreased from \$563,467 to \$511,006, a decrease of 9.31%.

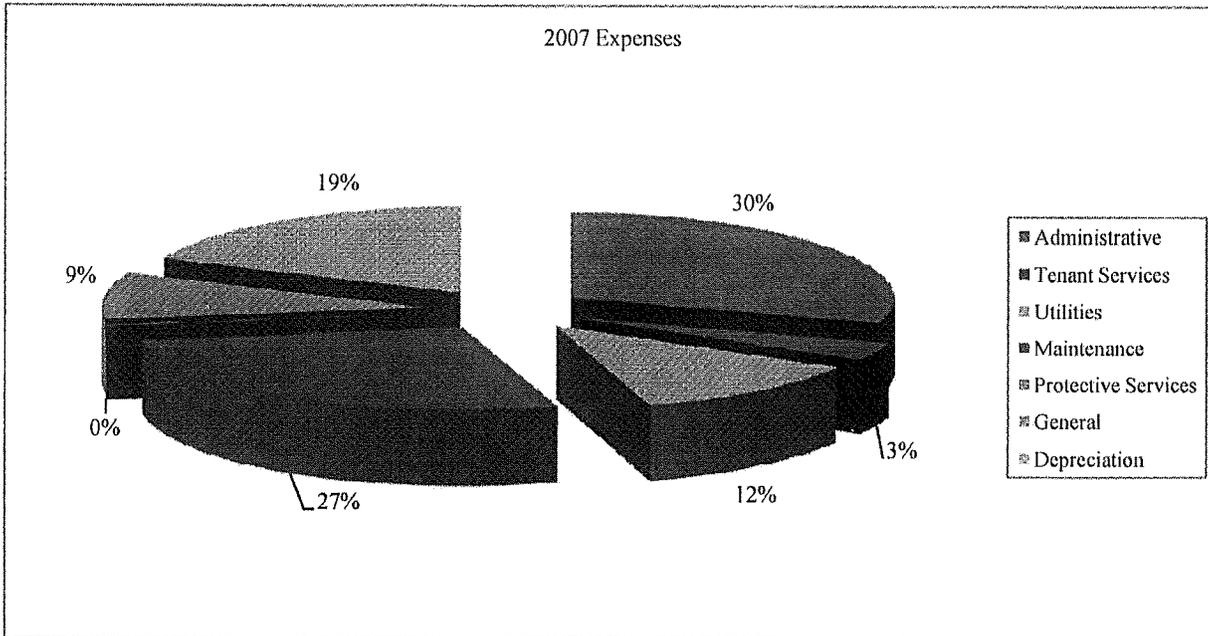
**Program Grants/Subsidies** – Grant revenue increased \$204,691 (45.17%) compared to the previous year. This was due mostly to increased Capital Grant funding.



CITY OF MANISTEE HOUSING COMMISSION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2007

**EXPENSES**

The Manistee Housing commission experienced an increase in expenses for the current year from \$1,357,614 to \$1,495,761 or \$138,147 (10.18%). The highlights of the expenses for the current year are as follows:



**Administrative** – Administrative costs include all non-maintenance and non-resident service personnel costs (including benefits and accrued leave), legal costs, auditing costs, travel and training costs, and other administrative costs such as supplies, telephone expense, etc. Compared to 2006, administrative costs increased by \$21,487 (5.06%), resulting primarily from increases in personnel costs.

**Tenant Services** – Tenant Services costs include all costs incurred by the Authority to provide social services to the residents. Compared to 2006, tenant services costs increased by \$46,135 (769.94%) due to funding for the Youth Build grant.

**Utilities** - The total utilities expense for the Authority increased by \$24,757 (16.03%) due to rate increases and a colder winter.

**Maintenance** – Maintenance costs are all costs incurred by the Authority to maintain the public housing units in a safe and sanitary manner. Costs include personnel costs, materials used to maintain the units, contracts for waste management and telephone/radio service, etc. The Maintenance Expense for the Authority increased by \$14,772 (3.78%) primarily due to higher contract costs.

**General Expenses** – General Expenses include insurance costs (property, auto, liability, workers' compensation, public officials' liability, etc.), collection losses, severance pay and interest expense. These expenses increased by \$19,012 (16.67%) due to costs in the new DVG Grant.

**Depreciation** – Because the costs of all capitalized additions are spread over the estimated useful life of an asset, the estimated current year costs of capitalized items is recorded as depreciation. Depreciation Expense for the current year increased by \$11,150 (4.20%) as a result of placing more Capital Fund assets into service.

CITY OF MANISTEE HOUSING COMMISSION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2007

**CAPITAL ASSETS**

At the end of fiscal year 2006 the Commission had invested in Capital Assets \$3,141,183 net of depreciation. As of December 31, 2007, the investment in Capital Assets had increased by \$211,750 to \$3,352,933. The following illustrates the Capital Asset values for 2006 and 2007.

**Manistee Housing Commission  
 Combined Statement of Capital Assets  
 TABLE IV**

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Land	\$ 312,216	\$ 312,216	\$ -	0.00%
Buildings	7,749,193	7,343,178	406,015	5.53%
Equipment	552,719	474,930	77,789	16.38%
Construction in Progress	121,789	16,312	105,477	646.62%
	<u>8,735,917</u>	<u>8,146,636</u>	<u>589,281</u>	<u>7.23%</u>
Accumulated Depreciation	<u>(5,382,984)</u>	<u>(5,005,453)</u>	<u>(377,531)</u>	<u>7.54%</u>
Total Capital Assets	<u>\$ 3,352,933</u>	<u>\$ 3,141,183</u>	<u>\$ 211,750</u>	<u>6.74%</u>

**LONG-TERM DEBT OBLIGATIONS**

At the end of fiscal year 2007, the Commission owed the following:

\$326,000 on two (2) non-interest bearing, forgivable mortgages with the Michigan State Housing Development Authority. If the properties mortgaged are continuously used in the Domestic Violence program, the mortgages are forgivable over the 40 year term – 25% for each 10 years that the houses stay in the program.

**ECONOMIC FACTORS AND EVENTS AFFECTING OPERATIONS**

Certain economic factors may affect the financial position of the Commission in subsequent fiscal years. Several of these factors are listed

- ◊ For the first time in the history of the program, 2007 funding levels for the Public Housing Operating Subsidy Program were at an all time low of 83%. The 2008 federal budget is anticipating a potentially even lower appropriation level. Cuts of this magnitude will severely affect the basic operations of the commission. Not only will some big expense items have to be eliminated, but ultimately also those basic to providing safe and sanitary housing to the communities that we serve.
- ◊ Budget deficits and funding for the Departments of Defense and Homeland Security will probably result in reduced appropriations for domestic program spending which will place further pressure on day to day operations.
- ◊ At the close of FY 2007, the funding and collection of low rent public housing end of year utility adjustments has been halted, and will not restart as the result of changes in the Operating Fund subsidy program regulations.
- ◊ Health care and other insurance costs are expected to increase dramatically over the next several years.

**CONCLUSION**

Overall, the Manistee Housing Commission maintained a healthy net asset position, even after using significant funding to renovate the administrative office space. The management is committed to staying abreast of regulations and appropriations as well as maintaining an ongoing analysis of all budgets and expenses to ensure that the Authority continues to operate at the highest standards established by the Real Estate Assessment Center and the Department of Housing and Urban Development.

**FINANCIAL CONTACT**

- ◊ This financial report is designed to provide our residents, the citizens of Manistee, all federal and state regulatory bodies, and any creditors with a general overview of the Authority's finances. If you have any questions regarding these financial statements or supplemental information, you may contact Clinton McKinven-Copus, Executive Director, at (231) 723-6201 or by writing: City of Manistee Housing Commission, 273 6<sup>th</sup> Avenue, Manistee, Michigan 49660.

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	296,134
Cash and Cash Equivalents - Restricted		65,626
Due From Other Governments		18,398
Receivables - Net of Allowance		46,330
Deferred Charges and Other Assets		<u>41,001</u>

TOTAL CURRENT ASSETS 467,489

NONCURRENT ASSETS

Fixed Assets - Net of Accumulated Depreciation		<u>3,352,933</u>
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TOTAL ASSETS 3,820,422

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		18,234
Accrued Salaries, Wages and Compensated Absences		23,517
Due To Other Governments		33,104
Trust and Deposit Liabilities		49,205
Debt		8,150
Deferred Revenue		<u>2,838</u>

TOTAL CURRENT LIABILITIES 135,048

NONCURRENT LIABILITIES

Debt		317,850
Accrued Salaries, Wages and Compensated Absences		<u>29,736</u>

TOTAL NONCURRENT LIABILITIES 347,586

TOTAL LIABILITIES 482,634

NET ASSETS

Invested in Capital Assets, Net of Related Debt		3,026,933
Unrestricted		<u>310,855</u>

TOTAL NET ASSETS 3,337,788

TOTAL LIABILITIES AND NET ASSETS \$ 3,820,422

"SEE INDEPENDENT AUDITOR'S REPORT"  
"THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS"

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2007

OPERATING REVENUES:

Federal Grants	\$ 540,566
Dwelling Rental	511,006
Other Revenue	<u>60,408</u>

TOTAL OPERATING REVENUES 1,111,980

OPERATING EXPENSES:

Administrative	446,095
Tenant Services	44,658
Utilities	179,225
Maintenance	386,905
Protective Services	2,987
Insurance	58,333
General Expense	46,622
Payments in Lieu of Taxes	33,104
Bad Debts	2,488
Extraordinary Maintenance	18,711
Depreciation	<u>276,633</u>

TOTAL OPERATING EXPENSES 1,495,761

OPERATING LOSS (383,781)

NON - OPERATING REVENUE (EXPENSES):

Interest and Investment Income	23,185
Capital Grants	<u>117,309</u>

TOTAL NON-OPERATING REVENUE (EXPENSES) 140,494

CHANGE IN NET ASSETS (243,287)

TOTAL NET ASSETS - BEGINNING 3,695,973

PRIOR PERIOD ADJUSTMENT (114,898)

TOTAL NET ASSETS - RESTATED 3,581,075

TOTAL NET ASSETS - ENDING \$ 3,337,788

"SEE INDEPENDENT AUDITOR'S REPORT"  
"THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS"

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from HUD	\$ 504,168
Cash Received from Tenants	493,237
Cash Payments for Administrative	(447,670)
Cash Payments for Other Operating Expenses	(753,266)
Other Income	<u>59,798</u>
NET CASH USED BY OPERATING ACTIVITIES	(143,733)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributed Capital for Capital Grants	117,309
Acquisition of Capital Assets	<u>(279,769)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(162,460)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Investment Income	<u>23,185</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>23,185</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(283,008)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>644,768</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u><u>361,760</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS	
Cash and Cash Equivalents	\$ 296,134
Restricted Cash and Cash Equivalents	<u>65,626</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u><u>361,760</u></u>

"SEE INDEPENDENT AUDITOR'S REPORT"  
"THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS"

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2007

RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Loss	\$	(383,781)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities		
Depreciation		276,633
Bad Debts		2,488
(Increase) Decrease in:		
Receivables - Net of Allowance		(21,308)
Due From Other Governments		(36,398)
Deferred Charges and Other Assets		15,693
Increase (Decrease) in:		
Accounts Payable		(8,393)
Accrued Wages, Salaries, and Compensated Absences		(8,875)
Due to Other Governments		(721)
Trust and Deposit Liabilities		3,539
Deferred Revenue		(610)
Deferred Credits and Other Liabilities		<u>18,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>(143,733)</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES

In 2007, the Commission purchased two houses through financing with a government agency in the amount of \$326,000.

"SEE INDEPENDENT AUDITOR'S REPORT"  
"THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Manistee Housing Commission (the "Commission"), pertain to the financial activities of the Commission as a component unit of the City of Manistee, Michigan.

Organization and Reporting Entity

The Commission is a Public Housing Authority created by the City of Manistee on August 30, 1968, consisting of a five-member board appointed by the City of Manistee and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. An executive director is appointed by the Commission's Board to manage the day-to-day operations of the Commission. The Commission operates under the provisions of the U.S. Housing Act of 1937 (the "Act"). The Act, as amended, empowers the Commission to perform planning, construction, financing, maintenance and management of the public housing developments in the City of Manistee.

Grants and Other Intergovernmental Revenues

The Commission has entered into contacts with the U.S. Department of Housing and Urban Development ("HUD"). Under Contract C-3077, the Commission constructed, maintains, and operates 220 units of subsidized housing in the City of Manistee, Michigan.

Basis of Accounting

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

Pursuant to GASB Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Commission follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Government activities, which normally are supported by intergovernmental (grant) revenues, are reported separately from any business-type activities, which would rely to a significant extent on fees and charges for support. All of the Commission's activities are considered business activities.

The Commission's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Commission uses Enterprise Funds to maintain its financial records on an accrual basis. Under the accrual basis of accounting, revenues are recorded when earned, regardless of when received, and expenses are recorded when incurred, regardless of when paid.

The Commission also considers all revenue and expense to be operating, as required by HUD, except capital funding, which is considered nonoperating income, as required by HUD.

Fund Accounting

The Commission maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is designed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in self-balancing groups of accounts and accounting entities that are separate from the activities reported in other funds.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Low-Rent Housing Program Fund - This fund is used to account for the components of the Low-Rent Housing Programs subsidized by HUD. A summary of each of these programs is provided below.

Conventional Public Housing Program - Under the Conventional Public Housing Program (CFDA #14.850), the Commission owns and manages dwelling units, which it rents to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC # C-3012) with HUD. HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a flat rate or a rate based upon 30% of household income, depending on the circumstances and choice of the renter. The Conventional Public Housing Program also includes the Capital Fund Program (CFDA # 14.872), which is the primary funding source for physical and management improvements to the Commission owned properties and its operations.

MSHDA Domestic Violence Program - Under the MSHDA Domestic Violence Program , the Commission administers the program to assist families in need of housing locate and end homelessness. The program is a 10 year plan that will allow families to have permanent housing. Tenants pay rent based on 30% of income through a HARP Voucher. The grant is a 40 year loan that a portion is forgiven every 10 years until the balance is gone.

Youth Build Activity Program - Under the Youth Build Activity Program (CDFA #14.243), the Commission administers the program and oversees the activities as the coordinator. The program is operated by the CASMAN Academy and has a separate board that oversees their activities.

Business Activities - Under Business Activities, the Commission administers the MSHDA Domestic Violence Program. It is through this fund that the management fees are charged to oversee the MSHDA Domestic Violence Program.

General Budget Policies

The Commission adopted budgets for all HUD-funded programs. The budget is controlled by fund at the function level.

Use of Estimates

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

Cash and Cash Equivalents

Cash consists fo cash on hand held by depository institutions and trustees in the Commission's name. For the purpose of the statement of cash flows, the Commission considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash accounts represents amounts held for security deposits and other cash restricted for specific programs by HUD.

Tenant Accounts Receivable

Rents are due from tenants on the first day of each month. As a result, tenants accounts receivable balances primarily consist of rents past due and vacated tenants.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the amount necessary, in management's judgement to adequately reflect the net realizable balance of the accounts receivable.

Tenant Security Deposits

Tenant security deposits represents amounts withheld from tenants of the low-income rental project.

Capital Assets

Capital assets are recorded at historical cost at the date of acquisition. Assets are depreciated using the straight-line method over the estimated useful lives as follows:

Buildings	40 Years
Improvements	15 Years
Equipment and Vehicles	5 Years
Furniture	5 Years

The Commission has established a capitalization threshold of \$300.

Construction in Progress

Construction in progress consists of capital projects in process primarily funded by the Capital Grant Program.

Compensated Absences

The Commission's employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. The amount of vacation and sick pay recognized as expense is the amount earned by the employees each year.

In the propriety fund, the compensated absences are expensed when earned with the amount reported as fund liability.

Net Assets

Net assets consist of investment in capital assets, restricted net assets, and unrestricted net assets. Restricted net assets include the accumulation of contributions in the form of cash or other assets which generally do not have to be returned to the contributor. These funds are restricted by HUD as to use and must be approved before expending. Unrestricted assets are designated for use for program expenditures in future periods.

Due From/To Other Programs

Interprogram receivables and payables as of December 31, 2007 on the Financial Data Schedule have been eliminated on the Statement of Net Assets.

Deferred Revenue

Deferred revenue consists of cash received from residents of the Low Rent Housing Program for rent in advance of their actual due date.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property Taxes

The Commission is a participant in a tax abatement program providing for payments in lieu of property taxes ("PILOT"). The payments are computed at 9.75% of rental income less utilities expense.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed. Prepaid expenses consist primarily of prepaid insurance.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The Commission's cash deposits are summarized below and were held by the Commission's bank in the Commission's name. The cash deposit was covered by a combination of federal depository insurance and securities held by the pledging financial institution trust department or agent in the Commission's name. The carrying amount of the Commission's deposits totaled \$361,760 as of December 31, 2007. The corresponding bank balances totaled \$383,825 the difference representing outstanding checks and other in-transit items. The carrying amount includes petty cash and cash on hand of \$500.

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
FDIC Insured Cash					
Deposits	\$ <u>100,500</u>	\$ <u>261,260</u>	\$ <u>-0-</u>	\$ <u>361,760</u>	\$ <u>361,760</u>

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized as defined by the GASB (securities pledged with the pledging financial institution's trust department or agent, but not in the entity's name).

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

As of December 31, 2007, the Commission had the following cash and investments, the use of which was restricted under the terms of various grant programs, debt obligations, and other requirements.

	<u>Cash</u>
Conventional Program:	
Tenant Security Deposits	\$ 48,855
MSHDA Domestic Violence Program:	
Tenant Security Deposits	350
Operating Reserve	<u>16,421</u>
Total Restricted Cash	\$ <u>65,626</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 4 - CAPITAL ASSETS

The following is a summary:

	<u>2007</u>
Land	\$ 322,216
Buildings	7,667,001
Furniture and Equipment - Dwell	233,851
Furniture and Equipment - Admin	318,868
Leasehold Improvements	72,192
Construction in Progress	121,789
Property and Equipment	<u>8,735,917</u>
Accumulated Depreciation	<u>(5,382,984)</u>
Capital Assets, Net of Accumulated Depreciation	\$ <u>3,352,933</u>

The following is a summary of changes:

	<u>Balance</u> <u>January 1, 2007</u>	<u>Additions</u> <u>(Deletions)</u> <u>Net</u>	<u>Balance</u> <u>December 31, 2007</u>
Land	\$ 322,216	\$ -0-	\$ 322,216
Building	7,260,986	406,015	7,667,001
Furniture and Equipment - Dwell	201,984	31,867	233,851
Furniture and Equipment - Admin	272,946	45,922	318,868
Leasehold Improvements	72,192	-0-	72,192
Construction in Progress	<u>16,312</u>	<u>105,477</u>	<u>121,789</u>
Total Capital Assets	8,146,636	589,281	8,735,917
Accumulated Depreciation	<u>(5,005,453)</u>	<u>(377,531)</u>	<u>(5,382,984)</u>
Capital Assets, Net of Accumulated Depreciation	\$ <u>3,141,183</u>	\$ <u>211,750</u>	\$ <u>3,352,933</u>

Depreciation expense for the year ended December 31, 2007 was \$276,633.

The following summarizes the change in Capital Assets as of December 31, 2007:

Beginning Balance	\$ 3,141,183
Additions	605,593
Prior Period Adjustment	(117,210)
Retirements Net of Depreciation	-0-
Depreciation	<u>(276,633)</u>
Ending Balance	\$ <u>3,352,933</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 5 - CHANGE IN UNRESTRICTED NET ASSETS

The following summarizes the change in Unrestricted Net Assets as of December 31, 2007:

Beginning Balance	554,790
Results of Operations	(243,287)
Adjustments:	
Depreciation (1)	276,633
Disposal of Assets	-0-
Adjusted Results from Operations	33,346
Capital Expenditures	(279,593)
Prior Period Adjustment	2,312
Ending Balance	\$ 310,855

NOTE 6 - LONG TERM DEBT

A roll-forward of the Authority's long-term debt in 2007 is as follows:

	<u>Balance</u> <u>January 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>December 31, 2007</u>	<u>Due Within</u> <u>One Year</u>
Note Payable	\$ <u>-0-</u>	\$ <u>326,000</u>	\$ <u>-0-</u>	\$ <u>326,000</u>	\$ <u>8,150</u>

The detail of the Authority's long term debt at year end is as follows:

Notes Payable to MSHDA, a government agency, payable in monthly installments of \$679, non-interest bearing, unsecured, maturing December 2047. These are two forgivable mortgages secured by property and buildings. If the properties mortgaged are continuously used in the Domestic Violence program, the mortgages are forgivable over the 40 year term; 25% for each 10 years that the houses stay in the program.

Debt service requirements of the notes payable for fiscal years ending on December 31, 2007 are as follows:

<u>Due Fiscal</u> <u>Year Ending</u>		<u>Principal</u> <u>Amount</u>
2008	\$	8,150
2009		16,300
2010		24,450
2011		32,600
2012 and Thereafter		244,500
Total	\$	326,000

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 7 - Retirement Plan

The Commission participates in multiple-employer public employee pension plan, under the Municipal Employees' Retirement System of Michigan ("MERS"). The pension covers all eligible full-time employees (age 60 with 10 years of credited service, age 55 with 15 years of credited service, and age 50 with 25 years of credited service) and requires a minimum contribution by the employees. The Commission's normal cost contribution was computed to be 4.03% of member payroll for the fiscal year beginning January 1, 2007. The excess of accrued liabilities over accrued assets was amortized over 30 years as a level percent of payroll. Valuation payroll for the Commission was \$254,191 and employee contributions were \$100,443 for the year ended December 31, 2007.

At December 31, 2007, the date of the last completed actuarial evaluation, the Commission's termination liability for retirement benefits was \$415,562 (employer and employee combined). Valuation assets available to meet this obligation were \$276,658. The Commission's estimated monthly contribution for the fiscal year beginning January 1, 2007 is \$854. There are seven active employees, one vested former member, and one retiree and/or beneficiary. There is an unfunded actuarial accrued liability balance of \$153,643 as of December 31, 2007. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual actuarial valuation.

The Commission employees who retire under the pension plan will have the option of maintaining Blue Cross/Blue Shield for themselves and their dependents, the group premium for which will be paid 75% by the employer and 25% by the employee or spouse upon receipt of an invoice for the same. Employees not covered under the pension plan shall have the same option.

NOTE 8 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Commission has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Grants

The Commission received financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Commission. The amount, if any, of disbursements which may be disallowed by the grantor cannot be determined at this time, although the Commission expects such amounts, if any, to be immaterial.

Litigation and Claims

In the normal course of operations, the Commission may be subject to litigation and claims. At December 31, 2007, the Commission was involved in several such matters. While the outcome of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the financial statements.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS

The Commission recorded an adjustment to correct capital assets, which was overstated as of December 31, 2007. The adjustment decreased the reported capital asset amount by \$117,210.

The Commission recorded an adjustment to correct net assets, which was understated as of December 31, 2007. The adjustment increased the reported net asset amount by \$2,312.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
FDS SCHEDULE SUBMITTED TO HUD  
DECEMBER 31, 2007

FDS Line		14.850a	14.872	MSHDA	14.243		
Item No.	Account Description	Low Rent	CFP	Domestic	Youthbuild	Business	Total
		Housing		Violence	Program	Activities	
	<b>ASSETS</b>						
111	Cash - Unrestricted	\$281,398	\$0	\$15,086	\$0	\$0	\$296,484
113	Cash - Other Restricted	0	0	16,071	0	0	16,071
114	Cash - Tenant Security Deposits	48,855	0	350	0	0	49,205
100	<b>TOTAL CASH</b>	<b>330,253</b>	<b>0</b>	<b>31,507</b>	<b>0</b>	<b>0</b>	<b>361,760</b>
122	Accounts Receivable - HUD Other Projects	0	11,377	0	25,021	0	36,398
125	Accounts Receivable - Misc	1,467	0	20,000	0	100	21,567
126	A/R Tenants - Dwelling Rents	6,808	0	25	0	0	6,833
126.1	Allowance for Doubtful Accounts	(4,285)	0	0	0	0	(4,285)
127	Notes Receivable - Current	4,216	0	0	0	0	4,216
129	Accrued Interest Receivable	0	0	0	0	0	0
120	<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>8,206</b>	<b>11,377</b>	<b>20,025</b>	<b>25,021</b>	<b>100</b>	<b>64,729</b>
142	Prepaid Expenses & Other Assets	41,001	0	0	0	0	41,001
144	Interprogram Due From	45,724	0	0	0	18,000	63,724
150	<b>TOTAL CURRENT ASSETS</b>	<b>425,184</b>	<b>11,377</b>	<b>51,532</b>	<b>25,021</b>	<b>18,100</b>	<b>531,214</b>
161	Land	312,216	0	0	0	0	312,216
162	Buildings	7,427,269	0	249,732	0	0	7,677,001
163	Furniture and Equipment - Dwellings	208,936	24,915	0	0	0	233,851
164	Furniture and Equipment - Administrative	318,868	0	0	0	0	318,868
165	Leasehold Improvement	72,192	0	0	0	0	72,192
166	Accumulated Depreciation	(5,375,368)	(6,271)	(1,345)	0	0	(5,382,984)
167	Construction in Progress	0	121,789	0	0	0	121,789
160	<b>TOTAL FIXED ASSETS, NET</b>	<b>2,964,113</b>	<b>140,433</b>	<b>248,387</b>	<b>0</b>	<b>0</b>	<b>3,352,933</b>
180	<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,964,113</b>	<b>140,433</b>	<b>248,387</b>	<b>0</b>	<b>0</b>	<b>3,352,933</b>
190	<b>TOTAL ASSETS</b>	<b>\$3,389,297</b>	<b>\$151,810</b>	<b>\$299,919</b>	<b>\$25,021</b>	<b>\$18,100</b>	<b>\$3,884,147</b>

FDS Line		14.850a	14.872	MSHDA	14.243		
Item No.	Account Description	Low Rent	CFP	Domestic	Youthbuild	Business	Total
		Housing		Violence	Program	Activities	
	<b>LIABILITIES</b>						
312	Accounts Payable <=90 Days	\$18,234	\$0	\$0	\$0	\$0	\$18,234
321	Accrued Wages/Payroll Taxes	11,227	0	0	0	0	11,227
322	Accrued Compensated Absences	12,290	0	0	0	0	12,290
333	Accounts Payable - Other Governments	33,104	0	0	0	0	33,104
341	Tenant Security Deposits	48,855	0	350	0	0	49,205
342	Deferred Revenue	2,838	0	0	0	0	2,838
343	Current Portion of L-T Debt - Capital Projects	0	0	8,150	0	0	8,150
345	Other Current Liabilities	0	0	0	0	0	0
347	Interprogram Due To	0	11,377	18,000	25,021	9,327	63,725
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>126,548</b>	<b>11,377</b>	<b>26,500</b>	<b>25,021</b>	<b>9,327</b>	<b>198,773</b>
351	Long-Term Debt, Net of Current -Capital Projects	0	0	317,850	0	0	317,850
354	Accrued Compensated Absences - Noncurrent	29,736	0	0	0	0	29,736
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>29,736</b>	<b>0</b>	<b>317,850</b>	<b>0</b>	<b>0</b>	<b>347,586</b>
300	<b>TOTAL LIABILITIES</b>	<b>156,284</b>	<b>11,377</b>	<b>344,350</b>	<b>25,021</b>	<b>9,327</b>	<b>546,359</b>
	<b>EQUITY</b>						
508.1	Invested in Capital Assets, Net of Related Debt	2,964,113	140,433	(77,613)	0	0	3,026,933
512.1	Unrestricted Net Assets	268,900	0	33,182	0	8,773	310,855
513	<b>TOTAL EQUITY</b>	<b>3,233,013</b>	<b>140,433</b>	<b>(44,431)</b>	<b>0</b>	<b>8,773</b>	<b>3,337,788</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$3,389,297</b>	<b>\$151,810</b>	<b>\$299,919</b>	<b>\$25,021</b>	<b>\$18,100</b>	<b>\$3,884,147</b>

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FDS SCHEDULE SUBMITTED TO HUD  
DECEMBER 31, 2007

FDS Line		14.850a	14.872	MSHDA	14.243		
Item No.	Account Description	Low Rent	CFP	Domestic	Youthbuild	Business	Total
		Housing		Violence	Program	Activities	
	<b>REVENUE</b>						
703	Net Tenant Rental Revenue	\$505,058	\$0	\$900	\$0	\$0	\$505,958
704	Tenant Revenue - Other	5,048	0	0	0	0	5,048
705	<b>TOTAL TENANT REVENUE</b>	<b>510,106</b>	<b>0</b>	<b>900</b>	<b>0</b>	<b>0</b>	<b>511,006</b>
706	PHA HUD Grants	361,331	133,095	0	46,140	0	540,566
706.1	Capital Grants	0	117,309	0	0	0	117,309
711	Investment Income - Unrestricted	23,073	0	112	0	0	23,185
715	Other Revenue	15,664	0	0	0	44,744	60,408
700	<b>TOTAL REVENUE</b>	<b>910,174</b>	<b>250,404</b>	<b>1,012</b>	<b>46,140</b>	<b>44,744</b>	<b>1,252,474</b>

FDS Line		14.850a	14.872	MSHDA	14.243		
Item No.	Account Description	Low Rent	CFP	Domestic	Youthbuild	Business	Total
		Housing		Violence	Program	Activities	
	<b>EXPENSES</b>						
911	Administrative Salaries	119,556	14,466	0	0	24,588	158,610
912	Auditing Fees	242	10,000	0	0	0	10,242
914	Compensated Absences	3,778	6,840	0	0	0	10,618
915	Employee Benefit Contribution - Administrative	71,538	0	0	0	2,334	73,872
916	Other Operating - Administrative	135,779	44,100	3,825	0	9,049	192,753
923	Employee Benefit Contribution - Tenant Services	0	0	0	0	0	0
924	Tenant Services - Other	5,987	0	0	38,671	0	44,658
931	Water	41,191	0	29	0	0	41,220
932	Electricity	85,930	0	38	0	0	85,968
933	Gas	51,946	0	91	0	0	52,037
941	Ordinary Maintenance and Operation - Labor	130,944	0	0	0	0	130,944
942	Ordinary Maintenance and Operation - Materials	44,706	50	789	0	0	45,545
943	Ordinary Maintenance and Operation - Cont Cost	114,149	6,239	127	0	0	120,515
945	Employee Benefit Contribution - Rod Maintenance	89,901	0	0	0	0	89,901
952	Protective Services - Other Contract Costs	2,987	0	0	0	0	2,987
961	Insurance Premiums	58,287	0	46	0	0	58,333
962	Other General Expenses	0	0	39,153	7,469	0	46,622
963	Payments in Lieu of Taxes	33,104	0	0	0	0	33,104
964	Bad Debts - Tenant Rents	2,488	0	0	0	0	2,488
969	<b>TOTAL OPERATING EXPENSES</b>	<b>992,513</b>	<b>81,695</b>	<b>44,098</b>	<b>46,140</b>	<b>35,971</b>	<b>1,200,417</b>
970	<b>EXCESS OPERATING REVENUE OVER EXPENSES</b>	<b>(82,339)</b>	<b>168,709</b>	<b>(43,086)</b>	<b>0</b>	<b>8,773</b>	<b>52,057</b>
	<b>OTHER EXPENSES</b>						
971	Extraordinary - Maintenance	13,930	2,200	0	0	0	16,130
972	Casualty Losses - Non Capitalized	2,581	0	0	0	0	2,581
974	Depreciation Expense	271,803	3,485	1,345	0	0	276,633
900	<b>TOTAL EXPENSES</b>	<b>1,280,827</b>	<b>87,380</b>	<b>45,443</b>	<b>46,140</b>	<b>35,971</b>	<b>1,495,761</b>
	<b>OTHER FINANCING SOURCES (USES)</b>						
1001	Operating Transfer In	49,200	0	0	0	0	49,200
1002	Operating Transfer Out	0	(49,200)	0	0	0	(49,200)
	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>49,200</b>	<b>(49,200)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1000	<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES</b>	<b>(321,453)</b>	<b>113,824</b>	<b>(44,431)</b>	<b>0</b>	<b>8,773</b>	<b>(243,287)</b>
1103	Beginning Equity	3,636,548	59,425	0	0	0	3,695,973
1104	Prior Period Adjustment	(82,082)	(32,816)	0	0	0	(114,898)
	<b>ENDING EQUITY</b>	<b>\$3,233,013</b>	<b>\$140,433</b>	<b>(\$44,431)</b>	<b>\$0</b>	<b>\$8,773</b>	<b>\$3,337,788</b>

CITY OF MANISTEE HOUSING COMMISSION  
 ADDITIONAL REQUIRED INFORMATION  
 FDS SCHEDULE SUBMITTED TO HUD  
 DECEMBER 31, 2007

FDS Line		14.850a	14.872	MSHDA	14.243		
Item No.	Account Description	Low Rent Housing	CFP	Domestic Violence	Youthbuild Program	Business Activities	Total
1103	Beginning Equity	\$3,636,548	\$59,425	\$0	\$0	\$0	\$3,695,973
1104	Prior Period Adjustment and Equity Transfers	(82,082)	(32,816)	0	0	0	(114,898)
1120	Gross Number of Units	2,520	0	4	0	0	2,524
1121	Number of Unit Months Leased	2,154	0	3	0	0	2,157

CITY OF MANISTEE HOUSING COMMISSION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED DECEMBER 31, 2007

	<u>FEDERAL CFDA NUMBER</u>	<u>FUNDS EXPENDED</u>
<u>U.S. DEPARTMENT OF HUD DIRECT PROGRAMS</u>		
PHA Owned Housing:		
Public and Indian Housing Program	14.850a	361,331
Public and Indian Housing Capital Fund Program	14.872	250,404
Opportunities For Youth - Youthbuild Program	14.243	<u>46,140</u>
Total Federal Assistance		\$ <u><u>657,875</u></u>

"SEE THE ACCOMPANYING NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS"

CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards presents the activity of all federal financial assistance programs of City of Manistee Housing Commission and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A - 133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 2 - SUBRECIPIENT AWARDS

Of the federal expenditures presented in the schedule, City of Manistee Housing Commission provided federal awards to subrecipients as follows:

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Description</u>	<u>Amount</u>
Opportunities For Youth - Youthbuild Program	14.243	CASMAN Academy	\$ <u>46,140</u>

# Zenk & Associates, P.C.

## Certified Public Accountants

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

Board of Commissioners,  
City of Manistee Housing Commission  
Manistee, Michigan

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

We have audited the financial statements of the business-type activities of the City of Manistee Housing Commission as of and for the year ended December 31, 2007, which collectively comprise City of Manistee Housing Commission's basic financial statements and have issued our report thereon dated May 7, 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 the City of Manistee Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manistee Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission'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 Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission'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 weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manistee Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

We noted certain matters that we reported to management of the City of Manistee Housing Commission, in a separate letter dated May 7, 2008.

This report is intended solely for the information and use of the board of commissioners, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Zuh + Associates, P.C.*

May 7, 2008

# Zenk & Associates, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners,  
City of Manistee Housing Commission  
Manistee, Michigan

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

### Compliance

We have audited the compliance of City of Manistee Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of Manistee 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Manistee Housing Commission's management. Our responsibility is to express an opinion on the City of Manistee Housing Commission's compliance based on our audit.

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; 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 City of Manistee 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. Our audit does not provide a legal determination on the City of Manistee Housing Commission's compliance with those requirements.

In our opinion, the City of Manistee Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-01.

### Internal Control over Compliance

The management of Manistee Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we consider Manistee Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Manistee Housing Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the board of commissioners, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Zenk & Associates, P.C.*

May 7, 2008

CITY OF MANISTEE HOUSING COMMISSION  
STATUS OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007

<b>STATUS OF PRIOR FINDINGS</b>
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The prior audit report for the year ended December 31, 2006 contained a total of 7 audit findings:

**Financial Statement Findings**

2006-1	Finding: Status:	Fixed Asset Reconciliation Implemented
2006-2	Finding: Status:	Lack of Physical Inventory for Fixed Assets Implemented
2006-3	Finding: Status:	Deficiency in Cash Disbursement Implemented
2006-4	Finding: Status:	HUD Form 51999 Implemented

**Federal Awards Findings**

2006-5	Finding: Status:	Resident Participation Funding Implemented
2006-6	Finding: Status:	Deficiency in Maintaining Waiting List Implemented
2006-7	Finding: Status:	Debarment of Vendors Implemented

CITY OF MANISTEE HOUSING COMMISSION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A-133 SECTION .505  
 YEAR ENDED DECEMBER 31, 2007

**1. SUMMARY OF AUDITORS' RESULTS**

Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under Section .510?	Yes
Major Programs (List):	CFDA# 14.850 Public and Indian Housing Program CFDA# 14.872 Public and Indian Housing Capital Fund Program (CFP)
Dollar Threshold: Type A/B Programs	Type A: \$300,000 Type B: All Others
Low Risk Auditee?	Yes

CITY OF MANISTEE HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
YEAR ENDED DECEMBER 31, 2007

**2. FINDINGS RELATED TO FINANCIAL STATEMENTS**

There are no findings or questioned costs for the year ended December 31, 2007.

**3. FINDINGS RELATED TO FEDERAL AWARDS**

Finding Reference Number

2007-01

**Program Name** - CFDA# 14.243 - Opportunities for Youth - Youthbuild Program

**Finding Type** - Allowable Costs/Cost Principles

**Criteria** - The program requires that all disbursements have the required documentation readily available to support and document allowable expenses.

**Condition** - During our testing of expenses, we noted that the documentation provided for some of the disbursements did not support the expenses as being allowable by the program.

**Questioned Costs** - \$8,035

**Effect** - Some of the expenses charged to the program are not considered allowable by the program. The subrecipient should reimburse the Commission for all expenses that were determined to be not allowed by the program.

**Cause** - Those in charge of reimbursing the program were disbursing funds to the subrecipient without closely reviewing documentation for support that the expenses were allowable per the program and grant.

**Recommendations** - We recommend that the Commission enhance and strengthen its quality controls and procedures to ensure that required documentation supports allowable expenses per the program before reimbursing the funds.

**Management's Response** - After review and consideration by the Executive Director and the subrecipient board, a request from the Commission for reimbursement was submitted. Payment by the subrecipient was received in full by the Commission before the audit report was issued.

**Action Plan** - The Executive Director will review the program and determine which future expenses will be considered allowable and then reimbursed to the subrecipient.

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners,  
City of Manistee Housing Commission  
Manistee, Michigan

Regional Inspector General of Audit  
Department of Housing and Urban  
Development

We have performed the procedure described in the second paragraph of this report, which was agreed upon by the City of Manistee Housing Commission and U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents included within the OMB Circular A-133 reporting package. The City of Manistee Housing Commission is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedure was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedures indicated agreement of the electronically submitted information and hard copy as shown in the attached chart.

We were engaged to perform an audit in accordance with OMB Circular A-133, Audits of States, Local Government, and Nonprofit Organizations, of the financial statements of the City of Manistee Housing Commission as of the year ended December 31, 2007, and have issued our report thereon dated March 6, 2008. The information in the "Hard Copy Documents" column was included within the scope or was a by-product, of that audit. Further, our opinion on the fair presentation of the supplemental information dated May 7, 2008, was expressed in relation to the general purpose financial statements of the City of Manistee Housing Commission taken as a whole.

A copy of the reporting package required by OMB Circular A-133, which includes the auditors' report is available in its entirety from the City of Manistee Housing Commission. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the City of Manistee Housing Commission and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

*Zenk & Associates, P.C.*

May 7, 2008

CITY OF MANISTEE HOUSING COMMISSION  
 AGREED-UPON PROCEDURES  
 DECEMBER 31, 2007

UFRS Rule Information	Hard Copy Documents	Findings
Balance Sheet and Revenue and Expense	Financial Data Schedule, all CFDA's	Agrees
Footnotes	Footnotes to audited basic financial statements	Agrees
Type of opinion on FDS	Auditors' supplemental report on FDS	Agrees
Audit findings narrative	Schedule of Findings and Questioned Cost	Agrees
General information	OMB Data Collection Form	Agrees
Financial statement report information	Schedule of Findings and Questioned Cost, Part 1 and OMB Data Collection Form	Agrees
Federal program report information	Schedule of Findings and Questioned Cost, Part 1 and OMB Data Collection Form	Agrees
Federal agencies required to receive reporting package	OMB Data Collection Form	Agrees
Basic financial statements and auditors' reports required to be submitted electronically	Basic Financial Statements (inclusive of auditors' reports)	Agrees