

CITY OF MANISTEE HOUSING COMMISSION  
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA  
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008, 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, 2008, 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 September 7, 2009 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 9 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.



September 7, 2009

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008

**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, 2008. 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 \$3,004,788 (net assets) as opposed to \$3,337,788 for the prior fiscal year.
- The Authority's cash and investments balance as of the close of the current fiscal year was \$364,768 representing a decrease of \$3,008 from the prior fiscal year.
- The Authority had total revenues of \$1,224,173 and total expenses of \$1,547,100 for the current fiscal year.
- The Authority expended \$52,138 in Capital Grant Funding (Hard Costs) for improvements to the Public Housing units.

**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, 2008

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

	<u>2008</u>	<u>2007</u>	<u>Total Change</u>	<u>% Change</u>
Current and Other Assets	\$ 430,155	\$ 467,489	\$ (37,334)	-7.99%
Capital Assets	<u>3,219,541</u>	<u>3,352,933</u>	<u>(133,392)</u>	-3.98%
Total Assets	3,649,696	3,820,422	(170,726)	-4.47%
Current and Other Liabilities	116,728	126,898	(10,170)	-8.01%
Long-Term Liabilities	<u>514,332</u>	<u>355,736</u>	<u>158,596</u>	44.58%
Total Liabilities	631,060	482,634	148,426	30.75%
Invested in Capital Assets, Net of Related Debt	2,719,541	3,026,933	(307,392)	-10.16%
Unrestricted	<u>299,095</u>	<u>310,855</u>	<u>(11,760)</u>	-3.78%
Total Net Assets	<u>3,018,636</u>	<u>3,337,788</u>	<u>(319,152)</u>	-9.56%
Total Liabilities & Net Assets	<u>\$ 3,649,696</u>	<u>\$ 3,820,422</u>	<u>\$ (170,726)</u>	-4.47%

As illustrated in the Combined Statement of Net Assets, the overall Net Assets of the Authority decreased by \$333,065. The "Invested in Capital Assets, Net of Related Debt" decreased by \$307,392 as a result of the final loan on the DVG Grant program houses. Unrestricted Net Assets decreased by \$11,760 due to operations. Current Assets and Current Liabilities remained virtually unchanged. Non-current Liabilities increased \$158,596 primarily as the result of the loan on the final DVG Grant house.

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008

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>2008</u>	<u>2007</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenues	\$ 541,937	\$ 511,006	\$ 30,931	6.05%
Grant Funding	589,914	657,875	(67,961)	-10.33%
Other Income	<u>92,322</u>	<u>83,593</u>	<u>8,729</u>	10.44%
 Total Revenue	 <u>1,224,173</u>	 <u>1,252,474</u>	 <u>(28,301)</u>	 -2.26%
Administrative	427,348	446,095	(18,747)	-4.20%
Tenant Services	47,817	52,127	(4,310)	-8.27%
Utilities	189,392	179,225	10,167	5.67%
Maintenance	436,094	405,616	30,478	7.51%
Protective Services	330	2,987	(2,657)	-88.95%
General	151,615	133,078	18,537	13.93%
Depreciation	<u>294,504</u>	<u>276,633</u>	<u>17,871</u>	6.46%
 Total Expenses	 <u>1,547,100</u>	 <u>1,495,761</u>	 <u>51,339</u>	 3.43%
 Change in Net Assets	 (322,927)	 (243,287)	 (79,640)	 32.74%
Beginning Net Assets	3,337,788	3,695,973	(358,185)	-9.69%
Transfer of Equity/Adjustments	<u>3,775</u>	<u>(114,898)</u>	<u>118,673</u>	100.00%
 Ending Net Assets	 <u>\$ 3,018,636</u>	 <u>\$ 3,337,788</u>	 <u>\$ (319,152)</u>	 -9.56%

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008

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

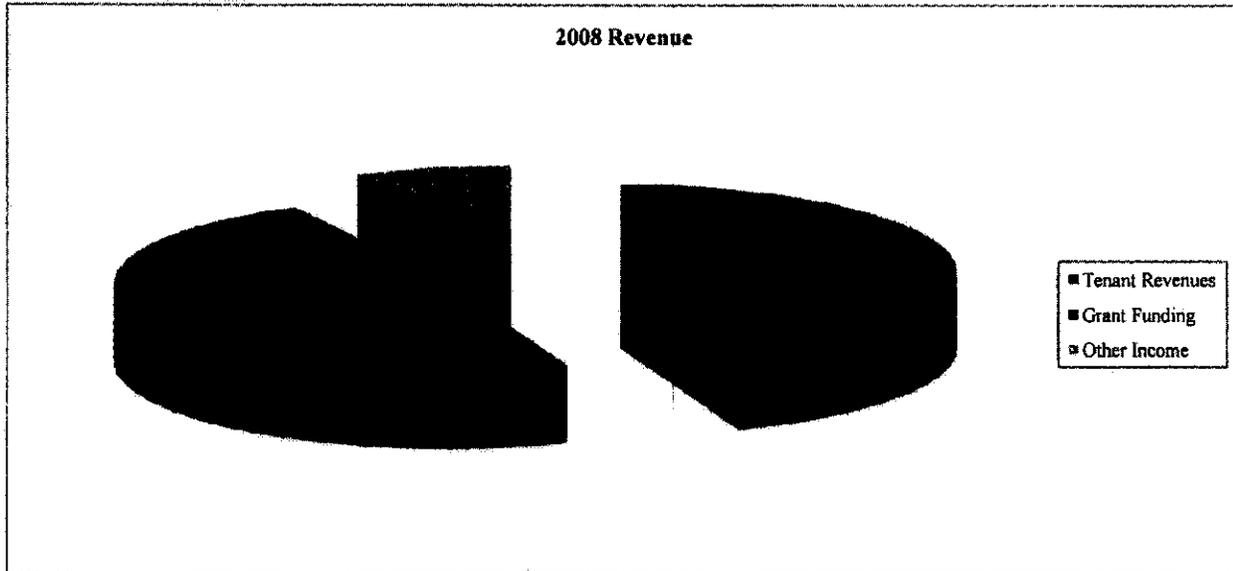
**Manistee Housing Commission**  
**Combined Statement of Revenues, Expenses, and Change in Net Assets - By Program**  
**TABLE III**

	<u>Business Activities</u>	<u>Opportunities For Youthbuild</u>	<u>Low Rent Public Housing</u>	<u>Capital Fund Program</u>	<u>State/Local</u>	<u>Total</u>
Tenant Revenues	\$ -	\$ -	\$ 531,255	\$ -	\$ 10,682	\$ 541,937
Grant Funding	-	62,529	357,038	170,347	-	589,914
Other Income	<u>29,108</u>	<u>-</u>	<u>61,739</u>	<u>-</u>	<u>1,475</u>	<u>92,322</u>
<b>Total Revenue</b>	<u>29,108</u>	<u>62,529</u>	<u>950,032</u>	<u>170,347</u>	<u>12,157</u>	<u>1,224,173</u>
Administrative	35,560	-	334,437	59,355	1,039	430,391
Tenant Services	-	47,591	226	-	-	47,817
Utilities	-	-	184,803	-	4,589	189,392
Maintenance	-	-	365,357	58,853	11,884	436,094
Protective Services	-	-	330	-	-	330
General	-	14,938	114,533	-	19,101	148,572
Depreciation	<u>-</u>	<u>-</u>	<u>279,680</u>	<u>7,018</u>	<u>7,806</u>	<u>294,504</u>
<b>Total Expenses</b>	<u>35,560</u>	<u>62,529</u>	<u>1,279,366</u>	<u>125,226</u>	<u>44,419</u>	<u>1,547,100</u>
Change in Net Assets	(6,452)	-	(329,334)	45,121	(32,262)	(322,927)
Beginning Net Assets	8,773	-	3,233,013	140,433	(44,431)	3,337,788
Operating Transfers	-	-	-	-	-	-
Transfer of Equity/Adj	<u>-</u>	<u>-</u>	<u>3,775</u>	<u>-</u>	<u>-</u>	<u>3,775</u>
<b>Ending Net Assets</b>	<u>\$ 2,321</u>	<u>\$ -</u>	<u>\$ 2,907,454</u>	<u>\$ 185,554</u>	<u>\$ (76,693)</u>	<u>\$ 3,018,636</u>

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008

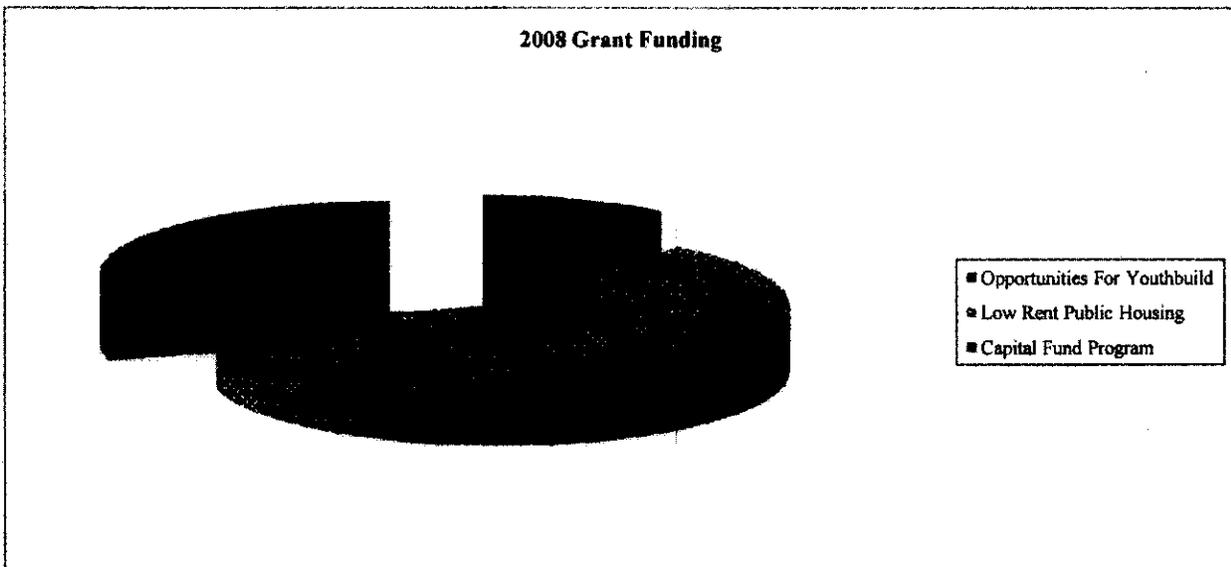
REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Assets, you will note that 48% 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 8%. Compared to the Fiscal Year Ended December 31, 2007, revenues had an overall decrease of \$28,301 (2.26%) due to reduced interest and other income. Tenant revenue significantly this year.



**Tenant Revenue** - Tenant Revenue increased from \$511,006 to \$541,937, an increase of 10.33%.

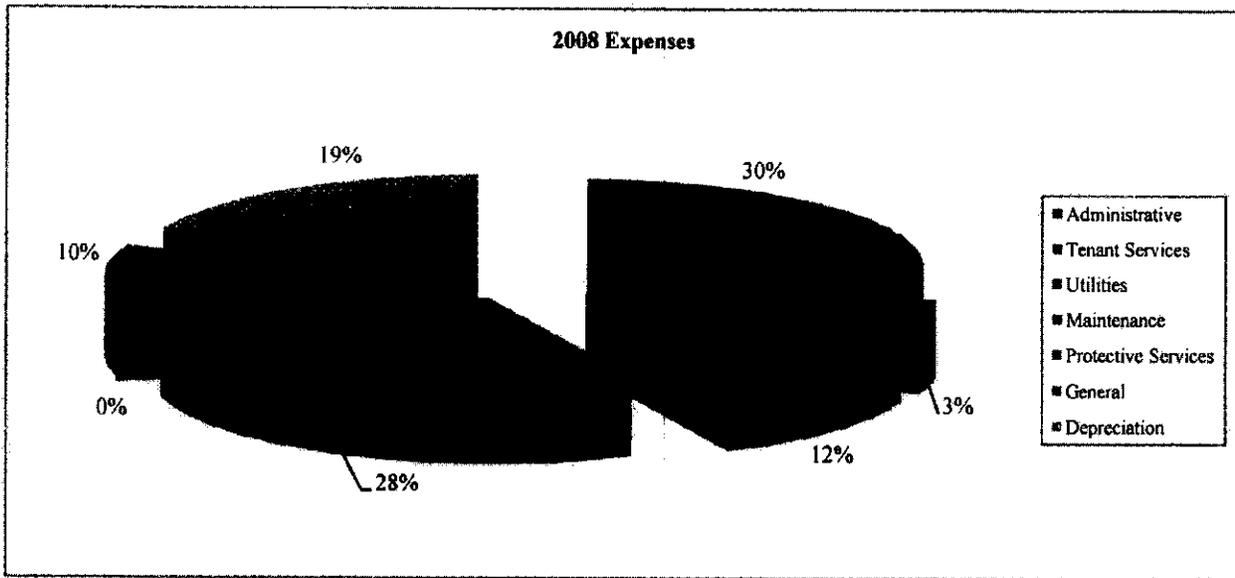
**Program Grants/Subsidies** – Grant revenue decreased \$67,961 (10.33%) compared to the previous year. This was due mostly to decreased Capital Grant funding.



CITY OF MANISTEE HOUSING COMMISSION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2008

**EXPENSES**

The Manistee Housing commission experienced an increase in expenses for the current year from \$1,495,761 to \$1,547,100 or \$51,339 (3.43%). 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 2007, administrative costs decreased by \$15,704 (3.52%), resulting from decreases in audit and sundry administrative costs.

**Tenant Services** – Tenant Services costs include all costs incurred by the Authority to provide social services to the residents. Compared to 2007, tenant services costs decreased by \$4,310 (8.27%) due to decreased program activity.

**Utilities** - The total utilities expense for the Authority increased by \$10,167 (5.67%) due to more usage.

**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 \$43,689 (10.77%) primarily due to higher contract costs (Soft Costs) in the Capital Fund program.

**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 decreased by \$3,139 (2.36%) due to decreases in most categories.

**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 \$17,871 (6.46%) as a result of placing more Capital Fund assets into service.

CITY OF MANISTEE HOUSING COMMISSION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2008

**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, 2008, the investment in Capital Assets had decreased by \$133,392 to \$3,219,541. The following illustrates the Capital Asset values for 2008 and 2007.

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

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Land	\$ 312,216	\$ 312,216	\$ -	0.00%
Buildings	7,858,166	7,749,193	108,973	1.41%
Equipment	561,084	552,719	8,365	1.51%
Construction in Progress	<u>165,563</u>	<u>121,789</u>	<u>43,774</u>	<u>35.94%</u>
	8,897,029	8,735,917	161,112	1.84%
Accumulated Depreciation	<u>(5,677,488)</u>	<u>(5,382,984)</u>	<u>(294,504)</u>	<u>5.47%</u>
Total Capital Assets	<u>\$ 3,219,541</u>	<u>\$ 3,352,933</u>	<u>\$ (133,392)</u>	<u>-3.98%</u>

**LONG-TERM DEBT OBLIGATIONS**

At the end of fiscal year 2008, the Commission owed the following:

\$500,000 on three (3) 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 below:

- The Department of Housing and Urban Development has historically underestimated the subsidy needs of public housing authorities. HUD has recently implemented the Calendar Year Shift for operating subsidy payments. However, it is never clear what proration percentages will be used to fund the new system in the future as this is determined annually by Congress through the budgetary process.
- 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 2008, 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.

CITY OF MANISTEE HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008

**CONCLUSION**

Overall, the Manistee Housing Commission's net asset position slipped a bit this year. Personnel turnover and continued efforts to implement software have increased expenses. 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, 2008

ASSETS

<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 213,271
Cash and Cash Equivalents - Restricted	119,749
Due From Other Governments	42,807
Receivables - Net of Allowance	2,465
Deferred Charges and Other Assets	<u>51,863</u>
<b>TOTAL CURRENT ASSETS</b>	<b>430,155</b>
<b>NONCURRENT ASSETS</b>	
Fixed Assets - Net of Accumulated Depreciation	<u>3,219,541</u>
<b>TOTAL ASSETS</b>	<b><u>3,649,696</u></b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$19,868
Accrued Salaries, Wages and Compensated Absences	10,573
Due To Other Governments	36,172
Trust and Deposit Liabilities	45,091
Debt	-
Deferred Revenue	<u>5,024</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>116,728</b>
<b>NONCURRENT LIABILITIES</b>	
Debt	500,000
Accrued Salaries, Wages and Compensated Absences	<u>14,332</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b><u>514,332</u></b>
<b>TOTAL LIABILITIES</b>	<b>631,060</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	2,719,541
Unrestricted	<u>299,095</u>
<b>TOTAL NET ASSETS</b>	<b><u>3,018,636</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>3,649,696</u></b>

"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, 2008

OPERATING REVENUES:

Federal Grants	\$ 537,776
Dwelling Rental	541,937
Other Revenue	<u>83,325</u>

TOTAL OPERATING REVENUES 1,163,038

OPERATING EXPENSES:

Administrative	427,348
Tenant Services	47,817
Utilities	189,392
Maintenance	436,094
Protective Services	330
Insurance	61,735
General Expense	32,332
Payments in Lieu of Taxes	39,799
Bad Debts	4,538
Extraordinary Maintenance	13,211
Depreciation	<u>294,504</u>

TOTAL OPERATING EXPENSES 1,547,100

OPERATING LOSS (384,062)

NON - OPERATING REVENUE (EXPENSES):

Interest and Investment Income	8,997
Capital Grants	<u>52,138</u>

TOTAL NON-OPERATING REVENUE (EXPENSES) 61,135

CHANGE IN NET ASSETS (322,927)

TOTAL NET ASSETS - BEGINNING 3,337,788

PRIOR PERIOD ADJUSTMENT 3,775

TOTAL NET ASSETS - RESTATED 3,341,563

TOTAL NET ASSETS - ENDING \$ 3,018,636

**"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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from HUD	\$ 526,367
Cash Received from Tenants	577,472
Cash Payments for Administrative	(467,967)
Cash Payments for Other Operating Expenses	(832,599)
Other Income	<u>85,511</u>
NET CASH USED BY OPERATING ACTIVITIES	(111,216)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributed Capital for Capital Grants	117,165
Acquisition of Capital Assets	<u>(43,686)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	73,479
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Investment Income	<u>8,997</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,997</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(28,740)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>361,760</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u>333,020</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS	
Cash and Cash Equivalents	\$ 213,271
Restricted Cash and Cash Equivalents	<u>119,749</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u>333,020</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, 2008

RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Loss	\$	(384,062)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities		
Depreciation		294,504
Bad Debts		4,538
(Increase) Decrease in:		
Receivables - Net of Allowance		39,649
Due From Other Governments		(10,862)
Deferred Charges and Other Assets		(11,409)
Increase (Decrease) in:		
Accounts Payable		1,634
Accrued Wages, Salaries, and Compensated Absences		3,068
Due to Other Governments		(4,114)
Trust and Deposit Liabilities		(28,348)
Deferred Revenue		2,186
Deferred Credits and Other Liabilities		<u>(18,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>(111,216)</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES

In 2008, the Commission purchased one house through financing with a government agency in the amount of \$174,000.

**"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, 2008

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 contracts 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 revenues and expenses 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, 2008

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, however, is not limited only to those that receive the 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 of 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.

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CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the amount necessary, in management's judgment 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, 2008 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.

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CITY OF MANISTEE HOUSING COMMISSION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

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, 2008, 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 and the corresponding bank balances differ due to outstanding checks and other in-transit items. The carrying amount includes petty cash and cash on hand of \$500.

	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
FDIC Insured Cash Deposits	\$ <u>100,500</u>	\$ <u>232,520</u>	\$ <u>-0-</u>	\$ <u>333,020</u>	\$ <u>333,020</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, 2008, 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	\$ 46,091
MSHDA Domestic Violence Program:	
Tenant Security Deposits	1,745
Operating Reserve	<u>71,913</u>
Total Restricted Cash	\$ <u>119,749</u>

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CITY OF MANISTEE HOUSING COMMISSION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

NOTE 4 - CAPITAL ASSETS

The following is a summary:

		<u>2008</u>
Land	\$	312,216
Buildings		7,785,974
Furniture and Equipment - Dwell		208,936
Furniture and Equipment - Admin		352,148
Leasehold Improvements		72,192
Construction in Progress		<u>165,563</u>
Property and Equipment		8,897,029
Accumulated Depreciation		<u>(5,677,488)</u>
Capital Assets, Net of Accumulated Depreciation	\$	<u>3,219,541</u>

The following is a summary of changes:

	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>
	<u>January 1, 2008</u>	<u>(Deletions)</u>	<u>December 31, 2008</u>
		<u>Net</u>	
Land	\$ 322,216	\$ -0-	\$ 312,216
Building	7,667,001	118,973	7,785,974
Furniture and Equipment - Dwell	233,851	(24,915)	208,936
Furniture and Equipment - Admin	318,868	33,280	352,148
Leasehold Improvements	72,192	-0-	72,192
Construction in Progress	<u>121,789</u>	<u>43,774</u>	<u>165,563</u>
Total Capital Assets	8,735,917	171,112	8,897,029
Accumulated Depreciation	<u>(5,005,453)</u>	<u>(672,035)</u>	<u>(5,677,488)</u>
Capital Assets, Net of Accumulated Depreciation	\$ <u>3,730,464</u>	\$ <u>(500,923)</u>	\$ <u>3,219,541</u>

Depreciation expense for the year ended December 31, 2008 was \$294,504.

The following summarizes the change in Capital Assets as of December 31, 2008:

Beginning Balance	\$	3,730,464
Additions		52,138
Prior Period Adjustment		-0-
Retirements Net of Depreciation		(268,557)
Depreciation		<u>(294,504)</u>
Ending Balance	\$	<u>3,219,541</u>

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CITY OF MANASSAS THE HOUSING COMMISSION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**NOTE 5 - CHANGE IN UNRESTRICTED NET ASSETS**

The following summarizes the change in Unrestricted Net Assets as of December 31, 2008:

Beginning Balance	310,855
Results of Operations	(622,927)
Adjustments:	
Depreciation (1)	294,504
Disposal of Assets	<u>65,026</u>
Adjusted Results from Operations	366,603
Capital Expenditures	(62,188)
Prior Period Adjustment	<u>33,775</u>
Ending Balance	\$ <u>299,095</u>

**NOTE 6 - LONG TERM DEBT**

All forward of the Authority's long term debt in 2008 is as follows:

	Balance January 1, 2008	Net Change	Balance December 31, 2008
Mortgage 1	1,660,000	-0-	1,660,000
Mortgage 2	1,660,000	-0-	1,660,000
Mortgage 3	<u>-0-</u>	<u>174,000</u>	<u>174,000</u>
Total Notes Payable	\$ <u>3,320,000</u>	\$ <u>174,000</u>	\$ <u>3,494,000</u>

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

Notes Payable to WSHDA, a government agency, ... non-interest bearing, \$326,000 maturing December 2047 and \$174,000 maturing December 2048. These are three 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. The Commission is required by the loan agreement to deposit money each year in a reserve account to cover maintenance and repairs for the houses over the term of the loans. The amount deposited in the reserve account as of December 31, 2008 is \$71,943.

**NOTE 7 - 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 all risks. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

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CITY OF MANISTEE HOUSING COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 8 - 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, 2008. 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 \$293,995 and employee contributions were \$116,759 for the year ended December 31, 2008.

At December 31, 2008, the date of the last completed actuarial evaluation, the Commission's termination liability for retirement benefits was \$290,024 (employer and employee combined). Valuation assets available to meet this obligation were \$373,361. The Commission's estimated monthly contribution for the fiscal year beginning January 1, 2008 is \$7,413. There are seven active employees, one vested former member, and one retiree and/or beneficiary. There is an overfunded actuarial accrued liability balance of \$83,337 as of December 31, 2008. 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 50% by the employer and 50% 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 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, 2008, 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 net assets, which was understated as of December 31, 2008. The adjustment increased the reported net asset amount by \$3,775.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
FDS SCHEDULE SUBMITTED TO HUD  
DECEMBER 31, 2008

FDS Line Item No.	Account Description	Total Projects	Total Programs	Central Office Cost Center	Subtotal	Elimination	Total
<b>ASSETS</b>							
111	Cash - Unrestricted	\$210,092	\$3,179	\$0	\$213,271	\$0	\$213,271
113	Cash - Other Restricted	0	71,913	0	71,913	0	71,913
114	Cash - Tenant Security Deposits	46,091	1,745	0	47,836	0	47,836
100	<b>TOTAL CASH</b>	<b>256,183</b>	<b>76,837</b>	<b>0</b>	<b>333,020</b>	<b>0</b>	<b>333,020</b>
121	Accounts Receivable - PHA Projects	0	3,586	0	3,586	0	3,586
122	Accounts Receivable - HUD Other Projects	39,221	0	0	39,221	0	39,221
125	Accounts Receivable - Misc	1,293	1,172	0	2,465	0	2,465
126	A/R Tenants - Dwelling Rents	9,707	0	0	9,707	0	9,707
126.1	Allowance for Doubtful Accounts	(9,707)	0	0	(9,707)	0	(9,707)
129	Accrued Interest Receivable	0	0	0	0	0	0
120	<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>40,514</b>	<b>4,758</b>	<b>0</b>	<b>45,272</b>	<b>0</b>	<b>45,272</b>
142	Prepaid Expenses & Other Assets	51,863	0	0	51,863	0	51,863
144	Interprogram Due From	31,748	0	0	31,748	(31,748)	0
150	<b>TOTAL CURRENT ASSETS</b>	<b>380,308</b>	<b>81,595</b>	<b>0</b>	<b>461,903</b>	<b>(31,748)</b>	<b>430,155</b>
161	Land	312,216	0	0	312,216	0	312,216
162	Buildings	7,427,269	358,705	0	7,785,974	0	7,785,974
163	Furniture and Equipment - Dwellings	208,936	0	0	208,936	0	208,936
164	Furniture and Equipment - Administrative	352,148	0	0	352,148	0	352,148
165	Leasehold Improvement	72,192	0	0	72,192	0	72,192
166	Accumulated Depreciation	(5,668,337)	(9,151)	0	(5,677,488)	0	(5,677,488)
167	Construction in Progress	165,563	0	0	165,563	0	165,563
160	<b>TOTAL FIXED ASSETS, NET</b>	<b>2,869,987</b>	<b>349,554</b>	<b>0</b>	<b>3,219,541</b>	<b>0</b>	<b>3,219,541</b>
180	<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,869,987</b>	<b>349,554</b>	<b>0</b>	<b>3,219,541</b>	<b>0</b>	<b>3,219,541</b>
190	<b>TOTAL ASSETS</b>	<b>\$3,250,295</b>	<b>\$431,149</b>	<b>\$0</b>	<b>\$3,681,444</b>	<b>(\$31,748)</b>	<b>\$3,649,696</b>

FDS Line Item No.	Account Description	Total Projects	Total Programs	Central Office Cost Center	Subtotal	Elimination	Total
<b>LIABILITIES</b>							
312	Accounts Payable <=90 Days	\$19,868	\$0	\$0	\$19,868	\$0	\$19,868
321	Accrued Wages/Payroll Taxes	3,145	0	0	3,145	0	3,145
322	Accrued Compensated Absences	7,428	0	0	7,428	0	7,428
331	Accounts Payable - HUD	0	0	0	0	0	0
333	Accounts Payable - Other Governments	36,172	0	0	36,172	0	36,172
341	Tenant Security Deposits	43,346	1,745	0	45,091	0	45,091
342	Deferred Revenue	4,834	190	0	5,024	0	5,024
343	Current Portion of L-T Debt - Capital Projects	0	0	0	0	0	0
345	Other Current Liabilities	0	0	0	0	0	0
347	Interprogram Due To	28,162	3,586	0	31,748	(31,748)	0
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>142,955</b>	<b>5,521</b>	<b>0</b>	<b>148,476</b>	<b>(31,748)</b>	<b>116,728</b>
353	Non-current Liabilities - Other	0	500,000	0	500,000	0	500,000
354	Accrued Compensated Absences - Noncurrent	14,332	0	0	14,332	0	14,332
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>14,332</b>	<b>500,000</b>	<b>0</b>	<b>514,332</b>	<b>0</b>	<b>514,332</b>
300	<b>TOTAL LIABILITIES</b>	<b>157,287</b>	<b>505,521</b>	<b>0</b>	<b>662,808</b>	<b>(31,748)</b>	<b>631,060</b>
<b>EQUITY</b>							
508.1	Invested in Capital Assets, Net of Related Debt	2,869,987	(150,446)	0	2,719,541	0	2,719,541
512.1	Unrestricted Net Assets	223,021	76,074	0	299,095	0	299,095
513	<b>TOTAL EQUITY</b>	<b>3,093,008</b>	<b>(74,372)</b>	<b>0</b>	<b>3,018,636</b>	<b>0</b>	<b>3,018,636</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$3,250,295</b>	<b>\$431,149</b>	<b>\$0</b>	<b>\$3,681,444</b>	<b>(\$31,748)</b>	<b>\$3,649,696</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		Total	Total	Central			
Item No.	Account Description	Projects	Programs	Office Cost	Subtotal	Elimination	Total
				Center			
	<b>REVENUE</b>						
70300	Net Tenant Rental Revenue	\$524,995	\$10,682	\$0	\$535,677	\$0	\$535,677
70400	Tenant Revenue - Other	6,260	0	0	6,260	0	6,260
70500	TOTAL TENANT REVENUE	531,255	10,682	0	541,937	0	541,937
70600	PHA HUD Grants	475,247	62,529	0	537,776	0	537,776
70610	Capital Grants	52,138	0	0	52,138	0	52,138
71100	Investment Income - Unrestricted	7,834	1,163	0	8,997	0	8,997
71500	Other Revenue	53,905	29,420	0	83,325	0	83,325
70000	TOTAL REVENUE	1,120,379	103,794	0	1,224,173	0	1,224,173

FDS Line		Total	Total	Central			
Item No.	Account Description	Projects	Programs	Office Cost	Subtotal	Elimination	Total
				Center			
	<b>EXPENSES</b>						
91100	Administrative Salaries	134,699	29,840	0	164,539	0	164,539
91200	Auditing Fees	7,750	0	0	7,750	0	7,750
91400	Advertising and Marketing	1,762	0	0	1,762	0	1,762
91500	Employee Benefit Contribution - Administrative	80,126	3,034	0	83,160	0	83,160
91600	Office Expense	41,216	3,725	0	44,941	0	44,941
91700	Legal Expense	14,720	0	0	14,720	0	14,720
91800	Travel Expense	9,177	0	0	9,177	0	9,177
91900	Other	101,299	0	0	101,299	0	101,299
92400	Tenant Services - Other	226	47,591	0	47,817	0	47,817
93100	Water	41,858	747	0	42,605	0	42,605
93200	Electricity	79,144	2,071	0	81,215	0	81,215
93300	Gas	63,801	1,771	0	65,572	0	65,572
94100	Ordinary Maintenance and Operation - Labor	129,456	0	0	129,456	0	129,456
94200	Ordinary Maintenance and Operation - Materials	32,761	170	0	32,931	0	32,931
94300	Ordinary Maintenance and Operation - Cont Cost	175,594	11,714	0	187,308	0	187,308
94500	Employee Benefit Contribution - Rod Maintenance	86,399	0	0	86,399	0	86,399
95200	Protective Services - Other Contract Costs	330	0	0	330	0	330
96100	Insurance Premiums	61,735	0	0	61,735	0	61,735
96200	Other General Expenses	1,920	30,412	0	32,332	0	32,332
96210	Compensated Absences	0	0	0	0	0	0
96300	Payments in Lieu of Taxes	36,172	3,627	0	39,799	0	39,799
96400	Bad Debts - Tenant Rents	4,538	0	0	4,538	0	4,538
96900	TOTAL OPERATING EXPENSES	1,104,683	134,702	0	1,239,385	0	1,239,385
97000	EXCESS OPERATING REVENUE OVER						
	EXPENSES	15,696	(30,908)	0	(15,212)	0	(15,212)
	<b>OTHER EXPENSES</b>						
97100	Extraordinary - Maintenance	13,211	0	0	13,211	0	13,211
97200	Casualty Losses - Non Capitalized	0	0	0	0	0	0
97400	Depreciation Expense	286,698	7,806	0	294,504	0	294,504
90000	TOTAL EXPENSES	1,404,592	142,508	0	1,547,100	0	1,547,100
	<b>OTHER FINANCING SOURCES (USES)</b>						
10010	Operating Transfer In	0	0	0	0	0	0
10020	Operating Transfer Out	0	0	0	0	0	0
	TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	0	0	0
10000	EXCESS (DEFICIENCY) OF REVENUE OVER						
	(UNDER) EXPENSES	(284,213)	(38,714)	0	(322,927)	0	(322,927)
11030	Beginning Equity	3,373,446	(35,658)	0	3,337,788	0	3,337,788
11040	Prior Period Adjustment	3,775	0	0	3,775	0	3,775
	ENDING EQUITY	\$3,093,008	(\$74,372)	\$0	\$3,018,636	\$0	\$3,018,636

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

11190	Unit Months Available	2,568	30	0	2,598	0	2,598
11210	Unit Months Leased	2,221	25	0	2,246	0	2,246
11270	Excess Cash	171,577	0	0	171,577	0	171,577
11610	Land Purchases	0	0	0	0	0	0
11620	Building Purchases	36,097	0	0	36,097	0	36,097
11630	Furniture & Equipment - Dwelling Purchases	0	0	0	0	0	0
11640	Furniture & Equipment - Administrative Purchases	16,042	0	0	16,042	0	16,042
11650	Leasehold Improvements Purchases	0	0	0	0	0	0

CITY OF MANISTEE HOUSING COMMISSION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED DECEMBER 31, 2008

	<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	475,247 *
Public and Indian Housing Capital Fund Program	14.872	52,138
Opportunities For Youth - Youthbuild Program	14.243	<u>62,529</u>
Total Federal Assistance		\$ <u>589,914</u>

\* Indicates Major Program

"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, 2008

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>62,529</u>

CITY OF MANISTEE HOUSING COMMISSION  
 SUPPLEMENTAL SCHEDULE OF ACTUAL MODERNIZATION COSTS  
 INCURRED ON CERTAIN PROJECTS CLOSED THROUGH  
 DECEMBER 31, 2008

ANNUAL CONTRIBUTION CONTRACT

1. The Actual Modernization Costs for the Locally-Owned Projects are as follows:

		MI 33PO78
		<u>501-04</u>
Funds Approved		\$ 303,946
Funds Expended		<u>303,946</u>
	Excess of Funds Approved	<u>-0-</u>
Funds Approved		303,946
Funds Expended		<u>303,946</u>
	Excess of Funds Approved	\$ <u>-0-</u>

2. The distribution of costs as shown on the Final Statement of Modernization Costs, accompanying the Actual Modernization Cost Certificates submitted to HUD are in agreement with the Authority's Records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

# 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, 2008, which collectively comprise City of Manistee Housing Commission's basic financial statements and have issued our report thereon dated September 7, 2009. 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 September 7, 2009.

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.*

September 7, 2009

# Zenk & Associates, P.C.

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Michigan Association of Certified Public Accountants

### 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, 2008. 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, 2008. 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 2008-02.

#### 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.

The Manistee Housing Commission's management response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Manistee Housing Commission's management response and, accordingly, we express no opinion on it.

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.

*Zank + Associates, P.C.*

September 7, 2009

CITY OF MANISTEE HOUSING COMMISSION  
STATUS OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2008

<b>STATUS OF PRIOR FINDINGS</b>
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The prior audit report for the year ended December 31, 2007 contained a total of 1 audit finding:

**Financial Statement Findings**

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

**Federal Awards Findings**

2007-1	Finding: Status:	Allowable Costs/Cost Principles Implemented
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CITY OF MANISTEE HOUSING COMMISSION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A-133 SECTION .505  
 YEAR ENDED DECEMBER 31, 2008

**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# 14.850a 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, 2008

<b>2. FINDINGS RELATED TO FINANCIAL STATEMENTS</b>
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Finding Reference Number	2008-01
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**Finding Type - Excessive Journal Entries**

**Criteria** - The Commission should take steps necessary to ensure the accuracy and completeness of the financial statements.

**Condition** - We noted during the audit that a significant number of adjusting journal entries were prepared. These entries were necessary because numerous general ledger accounts were incorrect and needed to be reclassified.

**Questioned Costs** - None

**Effect** -The Commission's financial statements before any adjusting entries contained numerous errors.

**Cause** - Numerous transactions were incorrectly recorded by the Commission. The Commission did not exercise adequate control over the general ledger and reporting function.

**Recommendations** - We recommend that the Commission exercise more care in processing and recording transactions to ensure the completeness of its financial reporting.

**Management's Response** - Numerous adjusting entries were required to correct the general ledger's incorrect balances due to staff's and fee accountant's inaccuracies when entering and reviewing data in the general ledger.

**Action Plan** - The Commission will take steps to ensure the accuracy and completeness of the financial statements.

CITY OF MANISTEE HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
YEAR ENDED DECEMBER 31, 2008

**3. FINDINGS RELATED TO FEDERAL AWARDS**

Finding Reference Number

2008-02

**Program Name** - Low Income Public Housing Program CDFA# 14.850a

**Finding Type** - Significant Deficiency

**Criteria** - It was noted in our review of Low Income Public Housing Program tenants files that during recertification some of the required information was missing.

**Condition** - The Commission did not ensure that all required information was completed and received.

**Questioned Costs** - Unknown

**Cause/Effect** - The Commission did not ensure that required information was complete for Low Income Public Housing Program tenants. As a result, there was a breakdown of internal controls over the compliance of recertification of tenants.

**Recommendations** - We recommend adequate controls over the completing of recertification of Low Income Public Housing Program tenants to ensure compliance with the program.

**Auditee Response** - The Commission will review their internal control policies for compliance with Low Income Public Housing Program tenant recertification process.

**Management's Response** - The Commission will review their internal control policies for compliance with Low Income Public Housing Program tenant recertification process and the required documentation.

**Action Plan** - The Executive Director will review the program and determine which required documentation should be completed and received in the Low Rent Program.

# Zenk & Associates, P.C.

## Certified Public Accountants

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Michigan Association of Certified Public Accountants

### 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, 2008, and have issued our report thereon dated September 7, 2009. 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 September 7, 2009, 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.*

September 7, 2009

CITY OF MANISTEE HOUSING COMMISSION  
 AGREED-UPON PROCEDURES  
 DECEMBER 31, 2008

<b>UFRS Rule Information</b>	<b>Hard Copy Documents</b>	<b>Findings</b>
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