

CITY OF MANISTEE HOUSING COMMISSION
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF MANISTEE HOUSING COMMISSION

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INTRODUCTION

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

Report on Financial Statements

We have audited the accompanying financial statements of the City of Manistee Housing Commission, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Manistee Housing Commission, as of December 31, 2012, and the respective changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistee Housing Commission's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and schedule of actual modernization costs incurred on certain closed projects are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements.

The financial data schedule and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records use to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial data schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relating to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2013, 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 grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Manistee Housing Commission's internal control over financial reporting and compliance.

Zenk & Associates, P.C.

August 16, 2013

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Manistee Housing Commission (The Commission) management's discussion and analysis is designed to {a} assist the reader in focusing on significant financial issues, {b} provide an overview of the Authority's financial activity, {c} identify change in the Authority's financial position (it's ability to address the next and subsequent year challenges), and {d} identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

- The assets of the Commission exceeded its liabilities at the close of the current fiscal year by \$2,543,035 (net position) as opposed to \$2,698,527 for the prior fiscal year.
- The Commission's cash and investments balance as of the close of the current fiscal year was \$568,343 representing a decrease of \$175,068 from the prior fiscal year.
- The Commission had total revenues of \$1,258,957 and total expenses of \$1,418,450 for the current fiscal year as. Revenues increased by \$59,873 and Expenses decreased by \$64,813.
- The Commission expended \$33,445 in Capital Grant Funding (Hard Costs) for improvements to the Public Housing units.
- The Commission entered into a capital lease purchase agreement under an energy performance contract in the prior year.

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 Position (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 position 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 position are accounted for in the Statement of Revenues, Expenses and Net Position. 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 Position and the Statement of Revenues, Expenses and Net Position 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 Position is presented in Table I.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

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

	<u>2012</u>	<u>2011</u>	<u>Total Change</u>	<u>% Change</u>
Current and Other Assets	\$ 591,607	\$ 434,331	\$ 157,276	36.21%
Capital Assets	<u>3,838,549</u>	<u>4,159,682</u>	<u>(321,133)</u>	-7.72%
Total Assets	4,430,156	4,594,013	(163,857)	-3.57%
Deferred Outflows of Resources	-	-	-	0.00%
Current and Other Liabilities	180,300	171,239	9,061	5.29%
Long-Term Liabilities	<u>1,706,821</u>	<u>1,724,247</u>	<u>(17,426)</u>	-1.01%
Total Liabilities	1,887,121	1,895,486	(8,365)	-0.44%
Deferred Inflows of Resources	-	-	-	0.00%
Invested in Capital Assets, Net of Related Debt	2,130,397	2,442,873	(312,476)	-12.79%
Unrestricted	<u>412,638</u>	<u>255,654</u>	<u>156,984</u>	61.40%
Total Net Position	<u>2,543,035</u>	<u>2,698,527</u>	<u>(155,492)</u>	-5.76%
Total Liabilities & Net Position	<u>\$ 4,430,156</u>	<u>\$ 4,594,013</u>	<u>\$ (163,857)</u>	-3.57%

As illustrated in the Combined Statement of Net Position, the overall Net Position of the Authority decreased by \$155,492. The “Invested in Capital Assets, Net of Related Debt” decreased by \$321,133 as a result of current year payments of the EPC Loan in Public Housing and depreciation. Unrestricted Net Position increased by \$156,984 due to operations and decrease in Net Invested in Capital Assets. Current Assets decreased by \$163,857 due to the receivable from HUD for grant funding received this year. Current Liabilities increased by \$9,061. Capital Assets decreased by \$321,133 due mostly to depreciation. Non-current Liabilities decreased \$17,426 primarily as the result of a current payment of EPC Loan.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses, and Net Position 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 Position
TABLE II

	<u>2012</u>	<u>2011</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenues	\$ 619,764	\$ 599,262	\$ 20,502	3.42%
Grant Funding	536,537	507,669	28,868	5.69%
Other Income	<u>102,656</u>	<u>92,153</u>	<u>10,503</u>	11.40%
 Total Revenue	 <u>1,258,957</u>	 <u>1,199,084</u>	 <u>59,873</u>	 4.99%
Administrative	303,412	367,865	(64,453)	-17.52%
Tenant Services	53,014	51,011	2,003	3.93%
Utilities	168,489	172,784	(4,295)	-2.49%
Maintenance	298,163	281,382	16,781	5.96%
Protective Services	3,235	3,043	192	6.31%
General	227,440	211,277	16,163	7.65%
Depreciation	<u>364,697</u>	<u>395,901</u>	<u>(31,204)</u>	-7.88%
 Total Expenses	 <u>1,418,450</u>	 <u>1,483,263</u>	 <u>(64,813)</u>	 -4.37%
 Change in Net Position	 (159,493)	 (284,179)	 124,686	 -43.88%
 Beginning Net Position	 <u>2,698,527</u>	 <u>2,906,249</u>	 <u>(207,722)</u>	 -7.15%
 Ending Net Position	 <u>\$ 2,539,034</u>	 <u>\$ 2,622,070</u>	 <u>\$ (83,036)</u>	 -3.17%

Other revenue represents insurance claims, laundry income, other tenant revenue and interest income.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

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

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

	Resident Opportunity and Supportive Services	State/Local	Low Rent Public Housing/Capital Fund Program	Total
Tenant Revenues	\$ -	\$ 11,397	\$ 608,367	\$ 619,764
Grant Funding	-	-	536,537	536,537
Other Income	-	4,452	102,205	106,657
Total Revenue	-	15,849	1,247,109	1,262,958
Administrative	-	1,569	301,843	303,412
Tenant Services	-	-	53,014	53,014
Utilities	-	-	168,489	168,489
Maintenance	-	971	297,192	298,163
Protective Services	-	-	3,235	3,235
General	-	7,530	219,910	227,440
Depreciation	-	9,385	355,312	364,697
Total Expenses	-	19,455	1,398,995	1,418,450
Change in Net Position	-	(3,606)	(151,886)	(155,492)
Beginning Net Position	11,924	(120,486)	2,807,089	2,698,527
Operating Transfers	-	-	-	-
Transfer of Equity/Adj	(11,924)	-	11,924	-
Ending Net Position	\$ -	\$ (124,092)	\$ 2,667,127	\$ 2,543,035

The Resident Opportunity and Supportive Services grant was closed out during 2012.

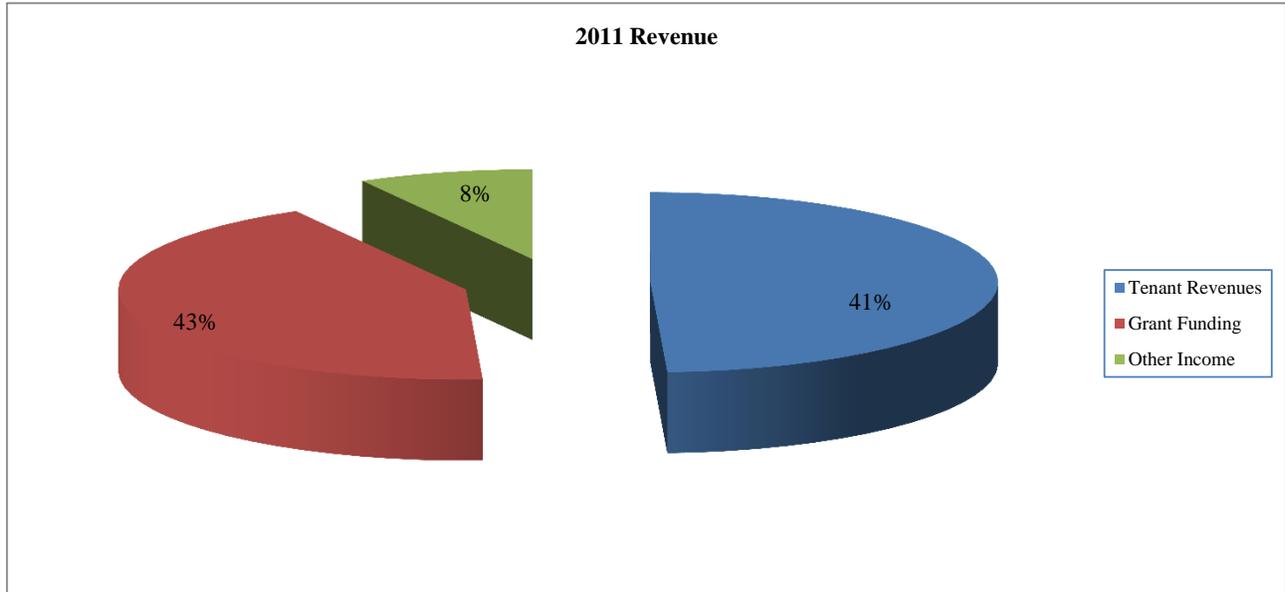
Women's Domestic Violence Program listed under State/Local Program had tenant revenue of \$11,397.

State/Local Program ending net assets are (\$124,092), which is attributed mostly to prior period losses.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

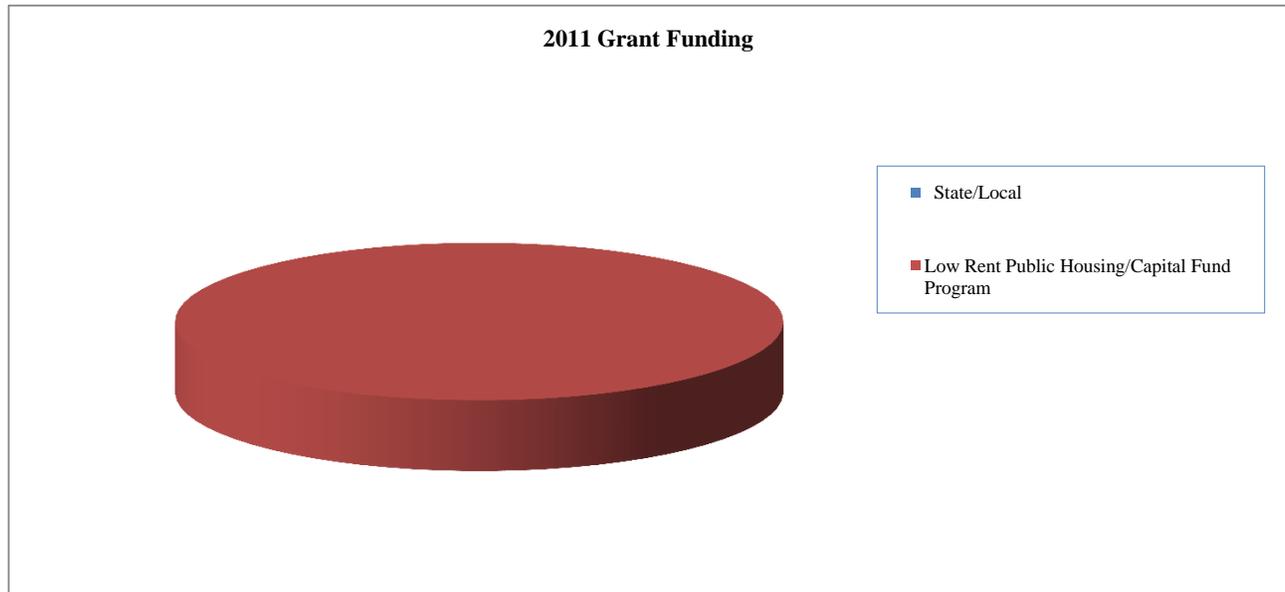
REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Position, you will note that 43% 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 include Interest from Investments, insurance claims, laundry income, comprised the remaining 8%. Compared to the Fiscal Year Ended December 31, 2012, revenues had an overall increase of \$59,873 (4.99%) due to an increase in capital fund grant.



Tenant Revenue - Tenant Revenue increased from \$599,262 to \$619,764, an increase of 3.42%.

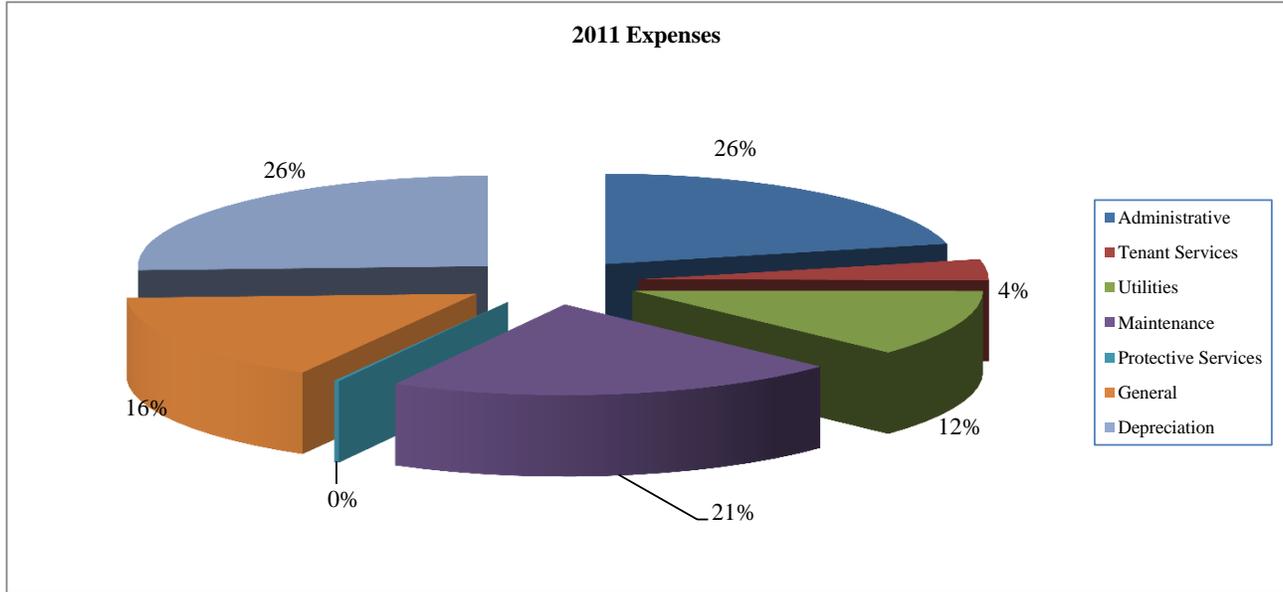
Program Grants/Subsidies – Grant revenue increased \$28,868 (5.69%) compared to the previous year. This was due to an increase Capital Grant funding.



CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

EXPENSES

The City of Manistee Housing Commission experienced a decrease in expenses for the current year from \$1,483,263 to \$1,418,450 or \$64,813 (4.37%). 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. Administrative costs decreased by \$64,453 (17.52%), resulting from decreases in salaries, benefits, and sundry administrative costs.

Tenant Services – Tenant Services costs include all costs incurred by the Authority to provide social services to the residents. Tenant services costs increased by \$2,003 (537.40%) due to increased program activity.

Utilities - The total utilities expense for the Authority decreased by \$4,295 (2.49%).

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 \$16,781 (5.96%) primarily due to increase in materials.

Protective Services – Protective services include security personnel and any material needed to patrol the units. These expenses increased by \$192 (6.31%) due to increases in funding for these activities.

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 \$16,163 (8.65%) due to increases 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 decreased by \$31,204 (7.88%) as a result of more assets being fully depreciated in the prior year.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

CAPITAL ASSETS

At the end of fiscal year 2012 the Commission had invested in Capital Assets \$3,838,549 net of depreciation. As of December 31, 2012, the investment in Capital Assets had decreased by \$321,133 to \$3,838,549 from \$4,159,682. The following illustrates the Capital Asset values for 2012 and 2011.

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Land	\$ 360,272	\$ 360,272	\$ -	0.00%
Buildings	9,846,116	9,824,780	21,336	0.22%
Equipment	702,623	705,695	(3,072)	-0.44%
Construction in Progress	-	-	-	#DIV/0!
	<u>10,909,011</u>	<u>10,890,747</u>	<u>18,264</u>	<u>0.17%</u>
Accumulated Depreciation	<u>(7,070,462)</u>	<u>(6,731,065)</u>	<u>(339,397)</u>	<u>5.04%</u>
 Total Capital Assets	 <u>\$ 3,838,549</u>	 <u>\$ 4,159,682</u>	 <u>\$ (321,133)</u>	 <u>-7.72%</u>

Some of the major project and additions are as follows:

The Commission had capital assets additions and improvements under the Capital Fund Program in the amount of \$18,456.

The Commission upgraded the heating and energy efficiency of several properties with a capital lease purchase agreement under an energy performance contract in the amount of \$1,228,854. Also, the MSHDA Loan is for \$500,00. With this debt, the Net Invested in Capital Assets, Net of Related Debt is \$2,130,397 as of December 31, 2012.

LONG-TERM DEBT OBLIGATIONS

As of December 31, 2012, the Commission had \$1,708,152 in long-term debt and capital lease obligations compared to \$1,716,809 at December 31, 2011, for a \$8,657 decrease. The following summarizes these obligations:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Mortgage 1 MSHDA	\$ 166,000	\$ 166,000	\$ -
Mortgage 2 MSHDA	160,000	160,000	-
Mortgage 3 MSHDA	174,000	174,000	-
Energy Program - Capital Lease	<u>1,208,152</u>	<u>1,216,809</u>	<u>(8,657)</u>
	-	-	-
Total Long-Term Debt Obligations	<u>\$ 1,708,152</u>	<u>\$ 1,716,809</u>	<u>\$ (8,657)</u>

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

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 2012, 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 have increased dramatically over the last several years.

CONCLUSION

Overall, the City of Manistee Housing Commission's net position slipped a bit this year. Revenues for the year have increased and expenses have decreased, both by small percentages. Management is continuing efforts to increase revenues. 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 Commission'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 6th Avenue, Manistee, Michigan 49660.

BASIC FINANCIAL STATEMENTS

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	510,738
Cash and Cash Equivalents - Restricted		57,605
Due From Other Governments		2,061
Receivables - Net of Allowance		4,606
Charges and Other Assets		16,597
TOTAL CURRENT ASSETS		591,607

NONCURRENT ASSETS

Capital Assets - Net of Accumulated Depreciation		3,838,549
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TOTAL ASSETS		4,430,156
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DEFERRED OUTFLOWS OF RESOURCES		-0-
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable		14,733
Accrued Salaries, Wages and Compensated Absences		27,508
Due To Other Governments		40,811
Trust and Deposit Liabilities		57,605
Unearned Revenue		3,670
Credits and Other Liabilities		23,574
Current Portion of Capital Leases		12,399
TOTAL CURRENT LIABILITIES		180,300

NONCURRENT LIABILITIES

Long-Term Debt - Net of Current Portion		500,000
Capital Leases - Net of Current Portion		1,195,753
Accrued Salaries, Wages and Compensated Absences		11,068
TOTAL NONCURRENT LIABILITIES		1,706,821

TOTAL LIABILITIES		1,887,121
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DEFERRED INFLOW OF RESOURCES		-0-
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NET POSITION

Invested in Capital Assets, Net of Related Debt		2,130,397
Unrestricted		412,638

TOTAL NET POSITION		2,543,035
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TOTAL LIABILITIES AND NET POSITION	\$	4,430,156
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"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 POSITION
YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES:

HUD and Other Operating Grants	\$	503,092
Dwelling Rental		619,764
Other Revenue		<u>101,234</u>
TOTAL OPERATING REVENUES		1,224,090

OPERATING EXPENSES:

Administrative		303,412
Tenant Services		53,014
Utilities		168,489
Maintenance		298,163
Protective Services		3,235
Insurance		75,255
General Expense		4,518
Payments in Lieu of Taxes		40,811
Bad Debts		26,818
Extraordinary Maintenance/Casualty Losses		2,418
Depreciation		<u>364,697</u>
TOTAL OPERATING EXPENSES		<u>1,340,830</u>

OPERATING LOSS (116,740)

NON - OPERATING REVENUE (EXPENSES):

Interest and Investment Income		1,422
Gain on Sale of Capital Assets		4,001
Interest Expense		<u>(77,620)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)		<u>(72,197)</u>

Capital Grants		<u>33,445</u>
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CHANGE IN NET POSITION (155,492)

TOTAL NET POSITION - BEGINNING		<u>2,698,527</u>
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TOTAL NET POSITION - ENDING	\$	<u><u>2,543,035</u></u>
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"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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from HUD	\$	503,092
Cash Received from Tenants		610,803
Cash Payments for Administrative		(306,531)
Cash Payments for Other Operating Expenses		(670,020)
Other Income		<u>124,808</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 262,152

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributed Capital for Capital Grants		37,341
Acquisition of Capital Assets		(43,564)
Proceeds From Disposition of Capital Assets		4,001
Payments For Debt Instruments		<u>(86,277)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (88,499)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and Investment Income		<u>1,415</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES 1,415

INCREASE IN CASH AND CASH EQUIVALENTS 175,068

CASH AND CASH EQUIVALENTS, BEGINNING 393,275

CASH AND CASH EQUIVALENTS, ENDING \$ 568,343

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS

Cash and Cash Equivalents	\$	510,738
Restricted Cash and Cash Equivalents		<u>57,605</u>

CASH AND CASH EQUIVALENTS, ENDING \$ 568,343

"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, 2012

RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Loss	\$	(116,740)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities		
Depreciation		364,697
Bad Debts		26,818
 (Increase) Decrease in:		
Receivables - Net of Allowance		(21,747)
Charges and Other Assets		8,832
 Increase (Decrease) in:		
Accounts Payable		(26,634)
Accrued Wages, Salaries, and Compensated Absences		(5,517)
Due to Other Governments		2,398
Trust and Deposit Liabilities		4,012
Unearned Revenue		2,459
Credits and Other Liabilities		<u>23,574</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$	 <u><u>262,152</u></u>

"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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the City of Manistee Housing Commission (the "Commission) conform to accounting principles generally accepted in the United States of America as applied to governmental entities.

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

Financial Reporting Entity

The City of Manistee Housing Commission is a discrete component unit of the City of Manistee, Michigan. The Commission is considered to be a component unit of the City because the City Council has the ability to impose its will upon the Commission by appointing and removing a member of the Commission's Board of Commissioners before the expiration of his or her term.

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

The City of Manistee Housing Commission was formed by the City of Manistee, Michigan under U.S. Housing Act of 1937. The Commission operates under a Board of Commissioners appointed by the City Mayor.

These financial statements include all activities of the Commission, which includes a Low Income Housing Program (220 units). This program receives subsidies and annual contributions from the Department of Housing and Urban Development ("HUD").

Basis of Presentation

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are federal grants and charges to customers for services. Operating expenses include housing assistance payments, administrative expenses, tenant services, maintenance, utilities, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Following is a description of the Commission's programs:

Project MI078000001 accounts for the revenue and related operations of the Public and Indian Housing grant and the Capital Fund Program of the Harborview Apartments, Century Terrace, and Vine Street Family Sites properties.

MSDA Domestic Violence Program which is a state and local program, accounts for the revenue and related operations of the Domestic Violence Program.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have an option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

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

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.

Receivables and Payables

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

Prepaid Expenses

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

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method as follows:

Buildings	40 Years
Improvements	15 Years
Equipment	5-10 Years

Compensated Absences

It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provision of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to received sick pay benefits.

Tenant Security Deposits

Tenant security deposits represents amounts withheld from tenants of the public housing low income program and the domestic violence program.

Payments in Lieu of 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.

Unearned Revenue

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

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position consists of the following:

Invested in Capital Assets - Consists of capital assets at historical cost, net of accumulated depreciation.

Restricted Net Position - Consists of Housing Assistance Payments received from HUD in excess of payments made to landlords. These excess funds can only be used for future landlord payments.

Unrestricted Net Position - Consists of all other assets that do not meet the definition of "restricted" or "Invested in Capital Assets".

Revenue and Expenses

Operating revenue and expenses are those that result from providing services and producing and delivering goods and/or other services. Also included, all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified as operating or nonoperating.

Due From/To Other Programs

Interprogram receivables and payables as of December 31, 2012 on the Financial Data Schedule have been eliminated on the Statement of Net Assets.

Deferred Outflows/Inflows

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission does not have any outflows to report in the statement of financial position as of December 31, 2012.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Commission does not have any inflows to report in the statement of financial position as of December 31, 2012.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash and Cash Equivalents	\$ 510,738
Cash and Cash Equivalents - Restricted	<u>57,605</u>
Total	<u>\$ 568,343</u>
Cash on Hand	\$ 300
Deposits	<u>568,043</u>
Total	<u>\$ 568,343</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Deposit and Investment Risk

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

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

Interest Rate Risk

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

Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial risk. At year end, \$294,816 of the Commission's bank balance of \$605,429 was exposed to custodial credit risk because it was uninsured, however, it was collateralized with government securities with a market value of \$294,816.

Custodial Credit Risk - Deposits

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

Concentration of Credit Risk

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

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS, Continued

Restricted Cash and Investments

As of December 31, 2012, 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	\$	56,023
MSHDA Domestic Violence Program:		
Tenant Security Deposits		<u>1,582</u>
Total Restricted Cash	\$	<u><u>57,605</u></u>

NOTE 3 - ACCOUNTS RECEIVABLE

The accounts receivable balance at December 31, 2012 is comprised of the following:

Tenant Receivables	11,882
Allowance for Doubtful Accounts	<u>(7,292)</u>
Total Receivables, Net	<u><u>4,590</u></u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Balance</u> <u>January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2012</u>
Capital Assets not being depreciated				
Land	\$ <u>360,272</u>	\$ -	\$ -	\$ <u>360,272</u>
Capital Assets being depreciated				
Building	9,824,780	21,336	-	9,846,116
Furniture and Equipment - Dwell	216,979	7,805	-	224,784
Furniture and Equipment - Admin	<u>488,716</u>	<u>14,423</u>	<u>(25,300)</u>	<u>477,839</u>
Total Capital Assets Being Depreciated	<u>10,530,475</u>	<u>43,564</u>	<u>(25,300)</u>	<u>10,548,739</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

NOTE 4 - CAPITAL ASSETS, Continued

	Balance <u>January 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2012</u>
Less Accumulated Depreciation:				
Building	(6,110,780)	(327,725)		(6,438,505)
Furniture and Equipment - Dwell	(206,438)	(2,486)		(208,924)
Furniture and Equipment - Admin	<u>(413,847)</u>	<u>(34,486)</u>	<u>25,300</u>	<u>(423,033)</u>
 Total Accumulated Depreciation	 <u>(6,731,065)</u>	 <u>(364,697)</u>	 <u>25,300</u>	 <u>(7,070,462)</u>
 Capital Assets, Net of Accumulated Depreciation	 \$ <u>3,799,410</u>	 \$ <u>(321,133)</u>	 \$ <u>-</u>	 \$ <u>3,478,277</u>
 Total Net Capital Assets	 \$ <u>4,159,682</u>	 \$ <u>(321,133)</u>	 \$ <u>-</u>	 \$ <u>3,838,549</u>

Depreciation expense for the year ended December 31, 2012 was \$364,697.

The following summarizes the change in Capital Assets as of December 31, 2012:

Beginning Balance	\$ 4,159,682
 Additions	 43,564
 Prior Period Adjustment	 -
 Retirements Net of Depreciation	 -
 Depreciation	 <u>(364,697)</u>
 Ending Balance	 \$ <u>3,838,549</u>

NOTE 5 - COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended December 31, 2012:

<u>Description</u>	Balance <u>2011</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>2012</u>	Due Within <u>One Year</u>
Accrued Compensated Absences	\$ <u>32,012</u>	\$ <u>-</u>	\$ <u>(10,392)</u>	\$ <u>21,620</u>	\$ <u>10,552</u>

NOTE 6 - PAYMENT IN LIEU OF TAXES

The Commission has executed a Cooperation Agreement with the City of Manistee that provides for tax exemption of the housing projects but requires the Commission to make payments in lieu of taxes for municipal services received based upon a prescribed formula related to rental income. As of December 31, 2012, those payments totaled \$40,811.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 7 - DEBT AND LEASE OBLIGATIONS

MSHDA Mortgages - In 2007, the Commission, through MSHDA, a government agency, borrowed \$326,000 maturing December 2047 and in 2008 borrowed \$174,000 maturing December 2048. These are three forgivable mortgages that are non-interest bearing and 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 homes over the term of the loans. The amount deposited in the reserve account as of December 31, 2012 is \$56,322.

The detail of the Commission's long term debt as of the year ended December 31, 2012 is as follows:

	<u>Beginning</u>		<u>Net</u>		<u>Ending</u>
	<u>Balance</u>		<u>Change</u>		<u>Balance</u>
Mortgage 1 MSHDA	\$ 166,000	\$	-0-	\$	166,000
Mortgage 2 MSHDA	160,000		-0-		160,000
Mortgage 3 MSHDA	<u>174,000</u>		<u>-0-</u>		<u>174,000</u>
Total Notes Payable	\$ <u>500,000</u>	\$	<u>-</u>	\$	<u>500,000</u>

Since the MSHDA mortgage payables are forgivable over 40 years there are no future debt service requirements for notes payable as of December 31, 2012.

Capital Lease - In November 2010, the Commission entered into an equipment lease-purchase agreement to acquire equipment under an energy performance contract to upgrade the heating and efficiency of several properties. The total amount of the contract is \$1,287,635, which began in January 2011 and was all committed as of December 31, 2011. Principal payments commenced March 2011. Interest from inception to March 2011 in the amount of \$19,981 was added to principal. The agreement ends in July 2030.

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	12,399	76,958	89,357
2014	16,500	76,047	92,547
2015	20,988	74,862	95,850
2016	25,892	73,378	99,270
2017	31,244	71,568	102,812
2018-2030	<u>1,101,128</u>	<u>638,121</u>	<u>1,739,249</u>
Total Capital Lease Payments	<u>1,208,152</u>	<u>1,010,934</u>	<u>2,219,085</u>

The detail of the Commission's long term debt as of the year ended December 31, 2012 is as follows:

	<u>Beginning</u>		<u>Net</u>		<u>Ending</u>
	<u>Balance</u>		<u>Change</u>		<u>Balance</u>
MSHDA Mortgages	\$ 500,000	\$	-0-	\$	500,000
EPC Capital Lease	<u>1,216,809</u>		<u>(8,657)</u>		<u>1,208,152</u>
Total Notes Payable	\$ <u>1,716,809</u>	\$	<u>(8,657)</u>	\$	<u>1,708,152</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 - CHANGE IN UNRESTRICTED NET POSITION

The following summarizes the change in Unrestricted Net Position as of December 31, 2012:

Beginning Balance	\$ 255,654
Results of Operations	(155,492)
Adjustments:	
Depreciation (1)	364,697
Change in Debt	(8,657)
Disposal of Assets	-
Adjusted Results from Operations	<u>200,548</u>
Capital Expenditures	(43,564)
Prior Period Adjustment	<u>-</u>
Ending Balance	\$ <u><u>412,638</u></u>

NOTE 9 - CONCENTRATION OF REVENUE

The Commission is dependent upon the Department of Housing and Urban Development to fund its operations through operating subsidies and capital funding grants. Total revenue received from the Department of Housing and Urban Development for the fiscal year ended December 31, 2012 was \$1,120,500 and was 65% of revenue.

NOTE 10 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission manages risk through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 11 - PENSION PLAN

The Commission participates in the Municipal Employees' Retirement System, (MERS). MERS is a defined benefit pension plan within the Michigan Department of Management and Budget, Bureau of Retirement Systems that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report. That report may be obtained by writing to MERS - Municipal Employees' Retirement System, 447 N. Canal Road, Lansing, MI 48917 or by calling 1-800-767-6377.

The Commission is invoiced by MERS on a monthly basis for its required contributions. For the fiscal year ended December 31, the Commission was invoiced at 6% gross wages. Commission employees are required to contribute \$-0- or -0-% of their annual compensation, depending on the employee group. The contribution requirements of plan members are established and may be amended by City Council.

For the year ended December 31, 2012, the Commission's contributed \$-0- for MERS was equal to the Commission's invoiced and actual contributions.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Commission does not participate in a postemployment benefits plan. Under the current union contract, the Commission is required to contribute \$100 for each retiree and \$100 for each spouse monthly to help subsidize the premiums for supplemental health insurance.

For the year ended December 31, 2012, the Commission had one covered retiree and contributed \$1,900.

NOTE 13 - CONTINGENCIES

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

NOTE 14 - CHANGES IN ACCOUNTING PRINCIPLES

In November 2010, GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. The requirements of this statement are effective for periods beginning after June 15, 2012 and have been implemented by the Commission.

In December 2010, GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement modifies government accounting and financial reporting standards to incorporate applicable provisions in FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989. The requirements of this statement are effective for periods beginning after December 15, 2011 and have been implemented by the Commission

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. The requirements of this statement are effective for periods beginning after December 15, 2011 and have been implemented by the Commission.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 14 - CHANGES IN ACCOUNTING PRINCIPLES, Continued.

In March 2012, GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for periods beginning after December 15, 2012 and have been implemented by the Commission.

In March 2012, GASB issued GASB Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*. The purpose of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance and resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this statement are effective for periods beginning after December 15, 2012 and have been implemented by the Commission.

"SEE INDEPENDENT AUDITOR'S REPORT"

OTHER SUPPLEMENTARY INFORMATION

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF NET POSITION
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2012

FDS Line		Total	Total	Central				
Item No.	Account Description	Projects	Programs	Office Cost	Center	Subtotal	Elimination	Total

ASSETS								
111	Cash - Unrestricted	\$451,733	\$59,005	\$0		\$510,738	\$0	\$510,738
113	Cash - Other Restricted	0	0	0		0	0	0
114	Cash - Tenant Security Deposits	56,023	1,582	0		57,605	0	57,605
100	TOTAL CASH	507,756	60,587	0		568,343	0	568,343
121	Accounts Receivable - PHA Projects	0	0	0		0	0	0
122	Accounts Receivable - HUD Other Projects	2,061	0	0		2,061	0	2,061
125	Accounts Receivable - Misc		0	0		0	0	0
126	A/R Tenants - Dwelling Rents	7,724	4,158	0		11,882	0	11,882
126.1	Allowance for Doubtful Accounts	(3,134)	(4,158)	0		(7,292)	0	(7,292)
129	Accrued Interest Receivable	16	0	0		16	0	16
120	TOTAL ACCOUNTS RECEIVABLE	6,667	0	0		6,667	0	6,667
142	Prepaid Expenses & Other Assets	16,597	0	0		16,597	0	16,597
144	Interprogram Due From	0	0	0		0	0	0
150	TOTAL CURRENT ASSETS	531,020	60,587	0		591,607	0	591,607
161	Land	360,272	0	0		360,272	0	360,272
162	Buildings	9,481,753	364,363	0		9,846,116	0	9,846,116
163	Furniture and Equipment - Dwellings	224,784	0	0		224,784	0	224,784
164	Furniture and Equipment - Administrative	477,839	0	0		477,839	0	477,839
165	Leasehold Improvement	0	0	0		0	0	0
166	Accumulated Depreciation	(7,024,056)	(46,406)	0		(7,070,462)	0	(7,070,462)
167	Construction in Progress	0	0	0		0	0	0
160	TOTAL FIXED ASSETS, NET	3,520,592	317,957	0		3,838,549	0	3,838,549
180	TOTAL NON-CURRENT ASSETS	3,520,592	317,957	0		3,838,549	0	3,838,549
190	TOTAL ASSETS	\$4,051,612	\$378,544	\$0		\$4,430,156	\$0	\$4,430,156

LIABILITIES								
312	Accounts Payable <=90 Days	\$14,279	\$454	\$0		\$14,733	\$0	\$14,733
321	Accrued Wages/Payroll Taxes	16,956	0	0		16,956	0	16,956
322	Accrued Compensated Absences	10,552	0	0		10,552	0	10,552
331	Accounts Payable - HUD	0	0	0		0	0	0
333	Accounts Payable - Other Governments	40,811	0	0		40,811	0	40,811
341	Tenant Security Deposits	56,023	1,582	0		57,605	0	57,605
342	Deferred Revenue	3,070	600	0		3,670	0	3,670
343	Current Portion of L-T Debt - Capital Projects	12,399	0	0		12,399	0	12,399
345	Other Current Liabilities	2,061	0	0		2,061	0	2,061
346	Accrued Liabilities - Other	21,513	0	0		21,513	0	21,513
347	Interprogram Due To	0	0	0		0	0	0
310	TOTAL CURRENT LIABILITIES	177,664	2,636	0		180,300	0	180,300
351	Long-term Debt, Net of Current -Capital Projects	1,195,753	500,000	0		1,695,753	0	1,695,753
353	Non-current Liabilities - Other	0	0	0		0	0	0
354	Accrued Compensated Absences - Noncurrent	11,068	0	0		11,068	0	11,068
350	TOTAL NONCURRENT LIABILITIES	1,206,821	500,000	0		1,706,821	0	1,706,821
300	TOTAL LIABILITIES	1,384,485	502,636	0		1,887,121	0	1,887,121
EQUITY/NET POSITION								
508.1	Invested in Capital Assets, Net of Related Debt	2,312,440	(182,043)	0		2,130,397	0	2,130,397
512.1	Unrestricted Net Position	354,687	57,951	0		412,638	0	412,638
513	TOTAL EQUITY/NET POSITON	2,667,127	(124,092)	0		2,543,035	0	2,543,035
600	TOTAL LIABILITIES AND EQUITY/NET POSITON	\$4,051,612	\$378,544	\$0		\$4,430,156	\$0	\$4,430,156

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2012

FDS Line		Total	Total	Central				
Item No.	Account Description	Projects	Programs	Office Cost	Center	Subtotal	Elimination	Total

REVENUE								
70300	Net Tenant Rental Revenue	\$596,898	\$11,397	\$0		\$608,295	\$0	\$608,295
70400	Tenant Revenue - Other	11,469	0	0		11,469	0	11,469
70500	TOTAL TENANT REVENUE	608,367	11,397	0		619,764	0	619,764
70600	PHA HUD Grants	503,092	0	0		503,092	0	503,092
70610	Capital Grants	33,445	0	0		33,445	0	33,445
71100	Investment Income - Unrestricted	1,353	69	0		1,422	0	1,422
71500	Other Revenue	96,851	4,383	0		101,234	0	101,234
71600	Gain or Loss on Sale of Capital Assets	4,001	0	0		4,001	0	4,001
70000	TOTAL REVENUE	1,247,109	15,849	0		1,262,958	0	1,262,958

EXPENSES								
91100	Administrative Salaries	160,918	0	0		160,918	0	160,918
91200	Auditing Fees	8,500	0	0		8,500	0	8,500
91400	Advertising and Marketing	0	0	0		0	0	0
91500	Employee Benefit Contribution - Administrative	41,819	0	0		41,819	0	41,819
91600	Office Expense	0	0	0		0	0	0
91700	Legal Expense	16,384	0	0		16,384	0	16,384
91800	Travel Expense	765	0	0		765	0	765
91900	Other	73,457	1,569	0		75,026	0	75,026
92100	Tenant Services - Salaries	835	0	0		835	0	835
92200	Employee Benefit Contribution - Tenant Services	64	0	0		64	0	64
92400	Tenant Services - Other	52,115	0	0		52,115	0	52,115
93100	Water	37,314	0	0		37,314	0	37,314
93200	Electricity	100,254	0	0		100,254	0	100,254
93300	Gas	30,921	0	0		30,921	0	30,921
94100	Ordinary Maintenance and Operation - Labor	138,101	0	0		138,101	0	138,101
94200	Ordinary Maintenance and Operation - Materials	39,613	763	0		40,376	0	40,376
94300	Ordinary Maintenance and Operation - Cont Cost	71,151	208	0		71,359	0	71,359
94500	Employee Benefit Contribution - Rod Maintenance	48,327	0	0		48,327	0	48,327
95200	Protective Services - Other Contract Costs	3,235	0	0		3,235	0	3,235
96100	Insurance Premiums	75,255	0	0		75,255	0	75,255
96200	Other General Expenses	108	1,215	0		1,323	0	1,323
96210	Compensated Absences	3,195	0	0		3,195	0	3,195
96300	Payments in Lieu of Taxes	40,811	0	0		40,811	0	40,811
96400	Bad Debts - Tenant Rents	20,503	6,315	0		26,818	0	26,818
96720	Interest on Notes Payable (Short and Long Term)	77,620	0	0		77,620	0	77,620
96900	TOTAL OPERATING EXPENSES	1,041,265	10,070	0		1,051,335	0	1,051,335
97000	EXCESS OPERATING REVENUE OVER EXPENSES	205,844	5,779	0		211,623	0	211,623
OTHER EXPENSES								
97100	Extraordinary - Maintenance	1,418	0	0		1,418	0	1,418
97200	Casualty Losses - Non Capitalized	1,000	0	0		1,000	0	1,000
97400	Depreciation Expense	355,312	9,385	0		364,697	0	364,697
90000	TOTAL EXPENSES	1,398,995	19,455	0		1,418,450	0	1,418,450
OTHER FINANCING SOURCES (USES)								
10010	Operating Transfer In	40,000	0	0		40,000	0	40,000
10020	Operating Transfer Out	(40,000)	0	0		(40,000)	0	(40,000)
	TOTAL OTHER FINANCING SOURCES (USES)	0	0	0		0	0	0
10000	EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES	(151,886)	(3,606)	0		(155,492)	0	(155,492)
11030	Beginning Equity	2,807,089	(108,562)	0		2,698,527	0	2,698,527
11040	Prior Period Adjustments, Equity Transfers	11,924	(11,924)	0		0	0	0
	ENDING EQUITY/NET POSITION	\$2,667,127	(\$124,092)	\$0		\$2,543,035	\$0	\$2,543,035

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2012

				Central			
FDS Line		Total	Total	Office Cost			
Item No.	Account Description	Projects	Programs	Center	Subtotal	Elimination	Total

11190	Unit Months Available	2,568	36	0	2,604	0	2,604
11210	Unit Months Leased	2,527	31	0	2,558	0	2,558
11610	Land Purchases	0	0	0	0	0	0
11620	Building Purchases	15,677	0	0	15,677	0	15,677
11630	Furniture & Equipment - Dwelling Purchases	3,345	0	0	3,345	0	3,345
11640	Furniture & Equipment - Administrative Purchases	14,423	0	0	14,423	0	14,423
11650	Leasehold Improvements Purchases	0	0	0	0	0	0

SINGLE AUDIT

Zenk & Associates, P.C.

Certified Public Accountants

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

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

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

Regional Inspector General of Audit
Department of Housing and Urban
Development

We have audited, 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 of the United States, the financial statements of business-type activities of the City of Manistee Housing Commission as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Manistee Housing Commission's basic financial statements and have issued our report thereon dated August 16, 2013.

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 (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City of Manistee Housing Commission's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Compliance and Other Matters

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

Zenk & Associates, P.C.

August 16, 2013

Zenk & Associates, P.C.

Certified Public Accountants

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Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY *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

Report on Compliance for Each Major Federal Program

We have audited the City of Manistee Housing Commission's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Manistee Housing Commission major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Manistee Housing Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Manistee Housing Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Manistee Housing Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

A deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of federal program that will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Zenk & Associates, P.C.

August 16, 2013

CITY OF MANISTEE HOUSING COMMISSION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2012

	<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	438,226 *
Public and Indian Housing Capital Fund Program	14.872	<u>98,311</u>
Total Federal Assistance		\$ <u>536,537</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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards presents the activity of all federal financial assistance programs of the 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 - SUB RECIPIENT AWARDS

Of the federal expenditures presented in the schedule, the City of Manistee Housing Commission did not provide federal awards to sub recipients.

CITY OF MANISTEE HOUSING COMMISSION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 SECTION .505
 YEAR ENDED DECEMBER 31, 2012

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?	No
Major Programs (List):	CFDA# 14.850a Public and Indian Housing
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, 2012

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

There are no findings or questioned costs for the year ended December 31, 2012.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended December 31, 2012.

CITY OF MANISTEE HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012

STATUS OF PRIOR FINDINGS

The prior audit report for the year ended December 31, 2011 contained no audit findings

Financial Statement Findings

There are no findings or questioned costs for the year ended December 31, 2011.

Federal Awards Findings

There are no findings or questioned costs for the year ended December 31, 2011.

AGREED-UPON PROCEDURES

Zenk & Associates, P.C.

Certified Public Accountants

Members: American Institutes of Certified Public Accountants
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, 2012, and have issued our report thereon dated August 16, 2013. 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 August 16, 2013, 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.

August 16, 2013

CITY OF MANISTEE HOUSING COMMISSION
 AGREED-UPON PROCEDURES
 DECEMBER 31, 2012

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