

CITY OF MANISTEE HOUSING COMMISSION
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, which collectively comprise the Commission's basic financial statements 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 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, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 18, 2012, 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 and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistee Housing Commission's financial statements as a whole. The financial data schedules, the schedule of fund progress, and the report on agreed-upon procedures 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 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 also not a required part of the financial statements. The financial data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedule of fund progress has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Zenk & Associates, P.C.

June 18, 2012

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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 \$2,698,527 (net assets) as opposed to \$2,906,249 for the prior fiscal year.
- The Commission's cash and investments balance as of the close of the current fiscal year was \$393,275 representing a decrease of \$238,671 from the prior fiscal year.
- The Commission had total revenues of \$1,199,084 and total expenses of \$1,483,263 for the current fiscal year as. Revenues decreased by \$417,789 and Expenses decreased by \$191,363.
- The Commission expended \$18,456 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 during the 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 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, 2011

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

	<u>2011</u>	<u>2010</u>	<u>Total Change</u>	<u>% Change</u>
Current and Other Assets	\$ 434,331	\$ 291,914	\$ 142,417	48.79%
Capital Assets	<u>4,159,682</u>	<u>4,531,102</u>	<u>(371,420)</u>	-8.20%
Total Assets	4,594,013	4,823,016	(229,003)	-4.75%
Current and Other Liabilities	171,239	180,089	(8,850)	-4.91%
Long-Term Liabilities	<u>1,724,247</u>	<u>1,736,678</u>	<u>(12,431)</u>	-0.72%
Total Liabilities	1,895,486	1,916,767	(21,281)	-1.11%
Invested in Capital Assets, Net of Related Debt	2,442,873	2,809,043	(366,170)	-13.04%
Unrestricted	<u>255,654</u>	<u>97,206</u>	<u>158,448</u>	163.00%
Total Net Assets	<u>2,698,527</u>	<u>2,906,249</u>	<u>(207,722)</u>	-7.15%
Total Liabilities & Net Assets	<u>\$ 4,594,013</u>	<u>\$ 4,823,016</u>	<u>\$ (229,003)</u>	-4.75%

As illustrated in the Combined Statement of Net Assets, the overall Net Assets of the Authority decreased by \$207,722. The "Invested in Capital Assets, Net of Related Debt" decreased by \$366,170 as a result of the EPC Loan in Public Housing. Unrestricted Net Assets increased by \$158,448 due to operations and decrease in Net Invested in Capital Assets. Current Assets decreased by \$142,417 due to the receivable from HUD for grant funding received this year. The CFP Program is owed \$5,944 from HUD as of December 31, 2011. Current Liabilities decreased by \$8,850. Capital Assets decreased by \$371,420 due mostly to depreciation. Non-current Liabilities decreased \$12,431 primarily as the result of a current payment of EPC Loan.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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>2011</u>	<u>2010</u>	<u>Total Change</u>	<u>% Change</u>
Tenant Revenues	\$ 599,262	\$ 589,221	\$ 10,041	1.70%
Grant Funding	507,669	908,994	(401,325)	-44.15%
Other Income	<u>92,153</u>	<u>118,658</u>	<u>(26,505)</u>	-22.34%
 Total Revenue	 <u>1,199,084</u>	 <u>1,616,873</u>	 <u>(417,789)</u>	 -25.84%
Administrative	367,865	548,171	(180,306)	-32.89%
Tenant Services	51,011	8,003	43,008	537.40%
Utilities	172,784	185,840	(13,056)	-7.03%
Maintenance	281,382	357,960	(76,578)	-21.39%
Protective Services	3,043	3,447	(404)	-11.72%
General	211,277	216,303	(5,026)	-2.32%
Depreciation	<u>395,901</u>	<u>354,902</u>	<u>40,999</u>	11.55%
 Total Expenses	 <u>1,483,263</u>	 <u>1,674,626</u>	 <u>(191,363)</u>	 -11.43%
 Change in Net Assets	 (284,179)	 (57,753)	 (226,426)	 392.06%
Beginning Net Assets	2,906,249	2,973,150	(66,901)	-2.25%
Transfer of Equity/Adjustments	<u>76,457</u>	<u>(9,148)</u>	<u>85,605</u>	100.00%
 Ending Net Assets	 <u>\$ 2,698,527</u>	 <u>\$ 2,906,249</u>	 <u>\$ (207,722)</u>	 -7.15%

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, 2011

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

	Resident Opportunity and Supportive Services	State/Local	Low Rent Public Housing/Capital Fund Program	Total
Tenant Revenues	\$ -	\$ 12,159	\$ 587,103	\$ 599,262
Grant Funding	81,893	-	425,776	507,669
Other Income	-	827	91,326	92,153
	<u>81,893</u>	<u>12,986</u>	<u>1,104,205</u>	<u>1,199,084</u>
Total Revenue				
Administrative	76,218	1,500	290,147	367,865
Tenant Services	-	-	51,011	51,011
Utilities	-	-	172,784	172,784
Maintenance	-	876	280,506	281,382
Protective Services	-	-	3,043	3,043
General	-	370	210,907	211,277
Depreciation	6,028	9,290	380,583	395,901
	<u>82,246</u>	<u>12,036</u>	<u>1,388,981</u>	<u>1,483,263</u>
Total Expenses				
Change in Net Assets	(353)	950	(284,776)	(284,179)
Beginning Net Assets	9,096	(121,436)	3,018,589	2,906,249
Operating Transfers	-	-	-	-
Transfer of Equity/Adj	-	3,181	73,276	76,457
	<u>-</u>	<u>3,181</u>	<u>73,276</u>	<u>76,457</u>
Ending Net Assets	<u>\$ 8,743</u>	<u>\$ (117,305)</u>	<u>\$ 2,807,089</u>	<u>\$ 2,698,527</u>

The stimulus grant was closed out during 2011.

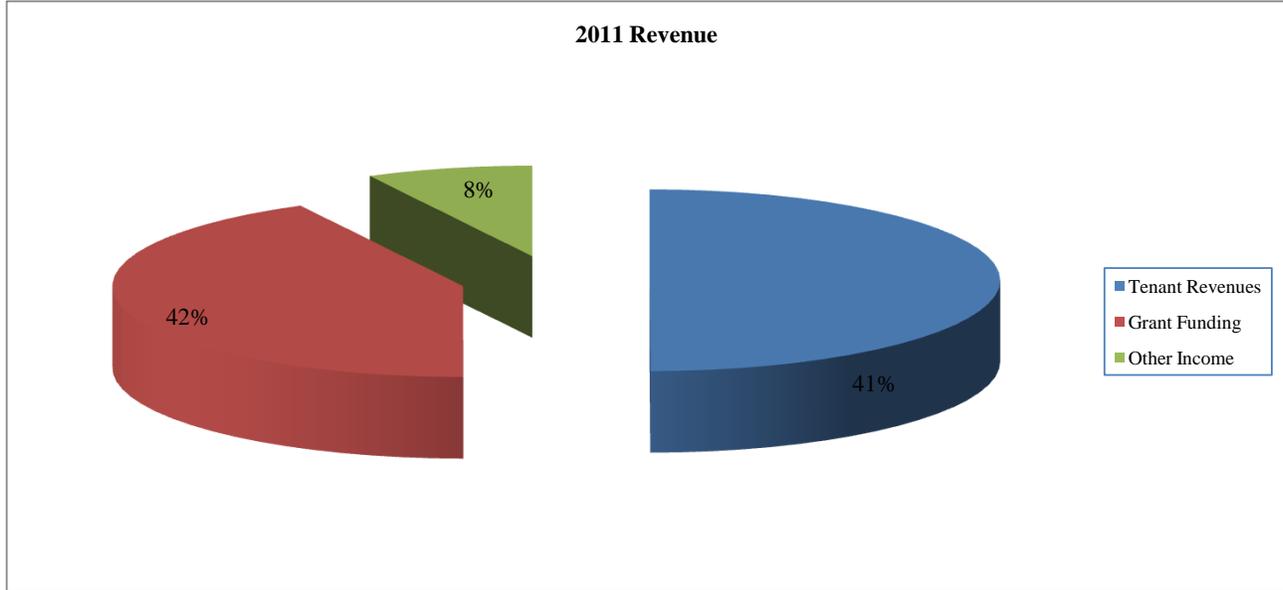
Women's Domestic Violence Program listed under State/Local Program had tenant revenue of \$12,269.

State/Local Program ending net assets are (\$117,305), which is attributed mostly to prior period losses.

CITY OF MANISTEE HOUSING COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2011

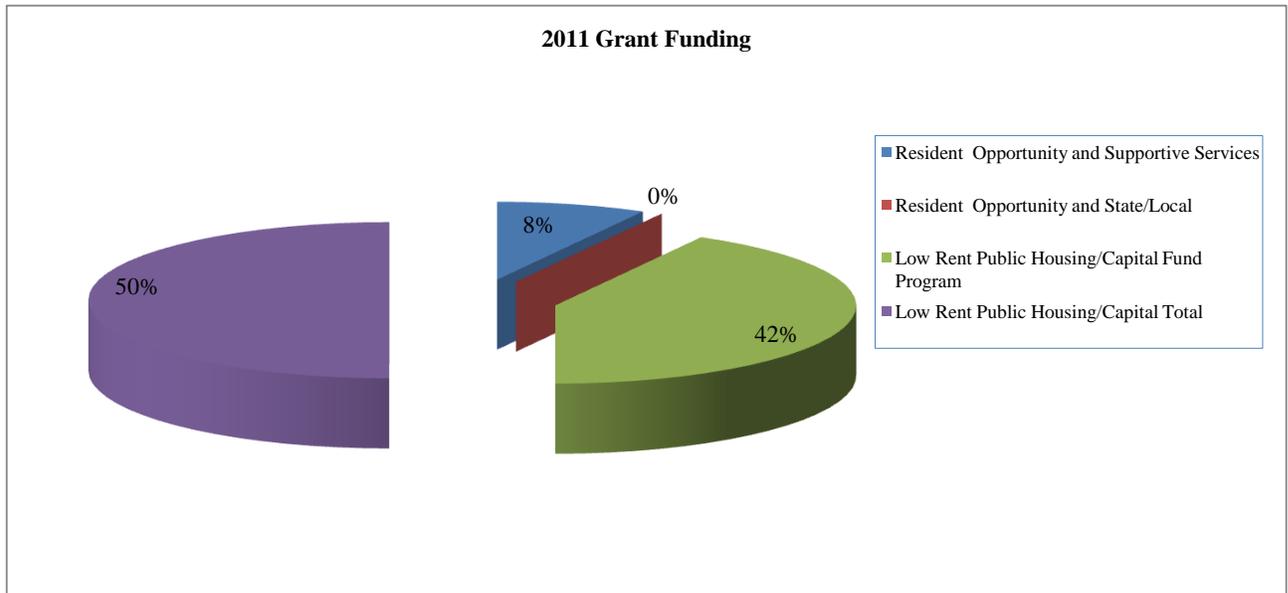
REVENUES

In reviewing the Statement of Revenues, Expenses, and Net Assets, you will note that 42% 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, 2011, revenues had an overall decrease of \$417,789 (25.84%) due to stimulus grant closing in 2011.



Tenant Revenue - Tenant Revenue increased from \$589,221 to \$599,262, an increase of 1.70%.

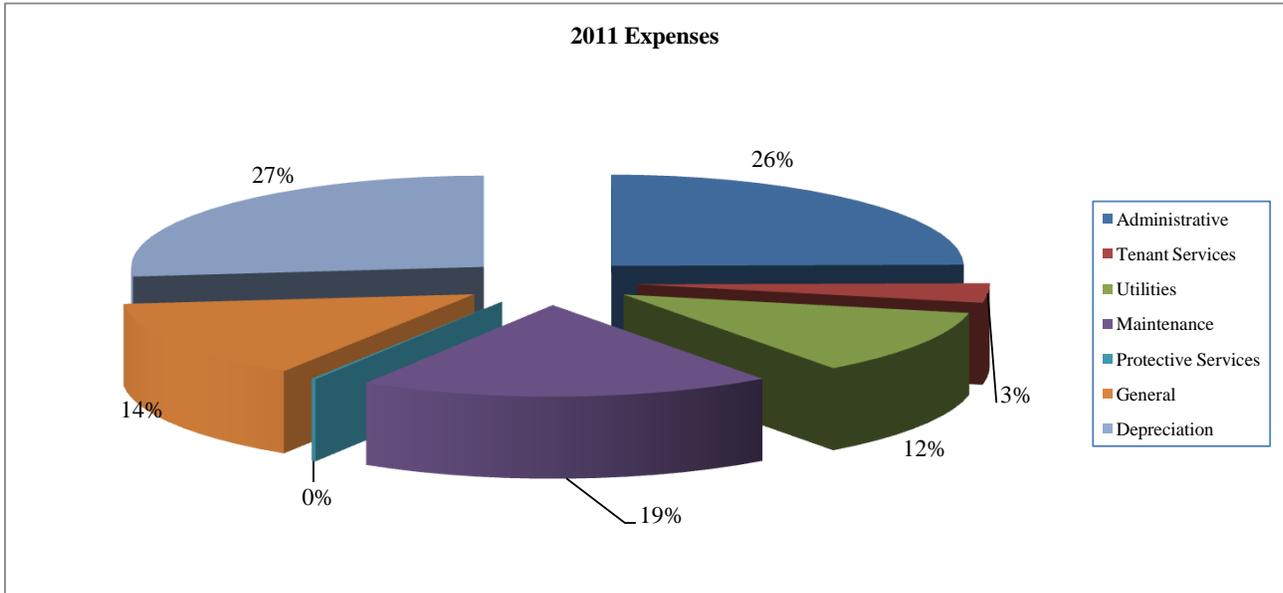
Program Grants/Subsidies – Grant revenue decreased \$401,325 (44.15%) compared to the previous year. This was due to a decreased Capital Grant funding and the stimulus grant.



CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

EXPENSES

The Manistee Housing commission experienced a decrease in expenses for the current year from \$1,674,626 to \$1,483,263 or \$191,363 (11.43%). 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. Administrative costs decreased by \$180,306 (32.89%), 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 \$43,008 (537.40%) due to increased program activity FSS grant.

Utilities - The total utilities expense for the Authority decreased by \$13,056 (7.06%).

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 decreased by \$76,578 (21.39%) primarily due to reduction in staff.

Protective Services – Protective services include security personnel and any material needed to patrol the units. These expenses decreased by \$404 (11.72%) due to decreases 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 decreased by \$5,026 (2.32%) 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 increased by \$40,999 (11.55%) as a result of placing more Capital Fund assets into service.

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

CAPITAL ASSETS

At the end of fiscal year 2011 the Commission had invested in Capital Assets \$4,159,682 net of depreciation. As of December 31, 2011, the investment in Capital Assets had decreased by \$371,420 to \$4,159,682 from \$4,531,102. The following illustrates the Capital Asset values for 2011 and 2010.

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>
Land	\$ 360,272	\$ 360,272	\$ -	0.00%
Buildings	9,824,780	9,773,708	51,072	0.52%
Equipment	705,695	693,143	12,552	1.81%
Construction in Progress	<u>-</u>	<u>39,143</u>	<u>(39,143)</u>	-100.00%
	10,890,747	10,866,266	24,481	0.23%
Accumulated Depreciation	<u>(6,731,065)</u>	<u>(6,335,164)</u>	<u>(395,901)</u>	6.25%
 Total Capital Assets	 <u>\$ 4,159,682</u>	 <u>\$ 4,531,102</u>	 <u>\$ (371,420)</u>	 -8.20%

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 \$2,442,873 as of December 31, 2011.

LONG-TERM DEBT OBLIGATIONS

As of December 31, 2011, the Commission had \$1,716,809 in long-term debt and capital lease obligations compared to \$1,720,059 at December 31, 2010, for a \$3,250 decrease. The following summarizes these obligations:

	<u>2011</u>	<u>2010</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>1,216,809</u>	<u>1,220,059</u>	<u>(3,250)</u>
			-
Total Long-Term Debt Obligations	<u>\$ 1,716,809</u>	<u>\$ 1,720,059</u>	<u>\$ (3,250)</u>

CITY OF MANISTEE HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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 2011, 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 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 6th Avenue, Manistee, Michigan 49660.

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	339,682
Cash and Cash Equivalents - Restricted		53,593
Due From Other Governments		5,944
Receivables - Net of Allowance		9,683
Deferred Charges and Other Assets		<u>25,429</u>

TOTAL CURRENT ASSETS 434,331

NONCURRENT ASSETS

Capital Assets - Net of Accumulated Depreciation		<u>4,159,682</u>
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TOTAL ASSETS 4,594,013

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable		41,367
Accrued Salaries, Wages and Compensated Absences		27,998
Due To Other Governments		38,413
Trust and Deposit Liabilities		53,593
Deferred Revenue		1,211
Current Portion of Capital Leases		<u>8,657</u>

TOTAL CURRENT LIABILITIES 171,239

NONCURRENT LIABILITIES

Long-Term Debt - Net of Current Portion		500,000
Capital Leases - Net of Current Portion		1,208,152
Accrued Salaries, Wages and Compensated Absences		<u>16,095</u>

TOTAL NONCURRENT LIABILITIES 1,724,247

TOTAL LIABILITIES 1,895,486

NET ASSETS

Invested in Capital Assets, Net of Related Debt		2,442,873
Unrestricted		<u>255,654</u>

TOTAL NET ASSETS 2,698,527

TOTAL LIABILITIES AND NET ASSETS \$ 4,594,013

"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, 2011

OPERATING REVENUES:

HUD and Other Operating Grants	\$	489,213
Dwelling Rental		599,262
Other Revenue		<u>90,979</u>
TOTAL OPERATING REVENUES		1,179,454

OPERATING EXPENSES:

Administrative		367,865
Tenant Services		51,011
Utilities		172,784
Maintenance		281,382
Protective Services		3,043
Insurance		77,823
General Expense		8,302
Payments in Lieu of Taxes		38,413
Bad Debts		10,127
Casualty Losses		1,000
Depreciation		<u>395,901</u>
TOTAL OPERATING EXPENSES		<u>1,407,651</u>

OPERATING LOSS (228,197)

NON - OPERATING REVENUE (EXPENSES):

Interest and Investment Income		1,174
Interest Expense		<u>(75,612)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)		<u>(74,438)</u>

Capital Grants		18,456
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CHANGE IN NET ASSETS (284,179)

TOTAL NET ASSETS - BEGINNING		2,906,249
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PRIOR PERIOD ADJUSTMENT		<u>76,457</u>
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TOTAL NET ASSETS - RESTATED		<u>2,982,706</u>
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TOTAL NET ASSETS - ENDING	\$	<u><u>2,698,527</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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from HUD	\$	570,535
Cash Received from Tenants		599,586
Cash Payments for Administrative		(366,267)
Cash Payments for Other Operating Expenses		(694,251)
Other Income		<u>90,979</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 200,582

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributed Capital for Capital Grants		33,845
Acquisition of Capital Assets		(36,689)
Payments For Debt Instruments		<u>(44,302)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (47,146)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and Investment Income		<u>1,168</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES 1,168

INCREASE IN CASH AND CASH EQUIVALENTS 154,604

CASH AND CASH EQUIVALENTS, BEGINNING 238,671

CASH AND CASH EQUIVALENTS, ENDING \$ 393,275

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS

Cash and Cash Equivalents	\$	339,682
Restricted Cash and Cash Equivalents		<u>53,593</u>

CASH AND CASH EQUIVALENTS, ENDING \$ 393,275

"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, 2011

RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Loss	\$	(228,197)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities		
Depreciation		395,901
Bad Debts		10,127
 (Increase) Decrease in:		
Receivables - Net of Allowance		2,203
Due From Other Governments		81,322
Deferred Charges and Other Assets		(7,843)
 Increase (Decrease) in:		
Accounts Payable		(52,650)
Accrued Wages, Salaries, and Compensated Absences		7,551
Due to Other Governments		860
Trust and Deposit Liabilities		(5,953)
Deferred Revenue		(2,739)
		(2,739)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$	 <u>200,582</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, 2011

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, 2011

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.

Resident Opportunity and Supportive Services Program - Under the Resident Opportunity and Supportive Services Program (CDFA #14.870), the Commission administers the program and oversees the activities as the coordinator.

Formula Capital Fund Stimulus Grant Program - Under the Formula Capital Fund Stimulus Grant Program (CDFA #14.885), the Commission uses the funds for physical and management improvements to Commission owned properties and its operations. Funds are allocated and based on size and age of the Commission's units.

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.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011 on the Financial Data Schedule have been eliminated on the Statement of Net Assets.

Deferred Revenue

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

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

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, 2011, 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 \$496.

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
FDIC Insured Cash					
Deposits	\$ <u>307,383</u>	\$ <u>85,892</u>	\$ <u>-0-</u>	\$ <u>393,275</u>	\$ <u>393,275</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, 2011, 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	\$ 51,955
MSHDA Domestic Violence Program:	
Tenant Security Deposits	1,638
Operating Reserve	<u>-</u>
Total Restricted Cash	\$ <u>53,593</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 - CAPITAL ASSETS

The following is a summary:

	<u>2011</u>
Land	\$ 360,272
Buildings	9,738,875
Furniture and Equipment - Dwell	216,979
Furniture and Equipment - Admin	488,716
Leasehold Improvements	85,905
Construction in Progress	<u>-</u>
Property and Equipment	10,890,747
Accumulated Depreciation	<u>(6,731,065)</u>
Capital Assets, Net of Accumulated Depreciation	\$ <u><u>4,159,682</u></u>

The following is a summary of changes:

	Balance <u>January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2011</u>
Land	\$ 360,272	\$ -	-	\$ 360,272
Building	9,687,803	51,072	-	9,738,875
Furniture and Equipment - Dwell	215,014	1,965	-	216,979
Furniture and Equipment - Admin	478,129	10,587	-	488,716
Leasehold Improvements	85,905	-	-	85,905
Construction in Progress	<u>39,143</u>	<u>-</u>	<u>(39,143)</u>	<u>-</u>
Total Capital Assets	10,866,266	63,624	(39,143)	10,890,747
Accumulated Depreciation	<u>(6,335,164)</u>	<u>(395,901)</u>	<u>-</u>	<u>(6,731,065)</u>
Capital Assets, Net of Accumulated Depreciation	\$ <u><u>4,531,102</u></u>	\$ <u><u>(332,277)</u></u>	\$ <u><u>(39,143)</u></u>	\$ <u><u>4,159,682</u></u>

Depreciation expense for the year ended December 31, 2011 was \$395,901.

The following summarizes the change in Capital Assets as of December 31, 2011:

Beginning Balance	\$ 4,531,102
Additions	24,481
Prior Period Adjustment	-
Retirements Net of Depreciation	-
Depreciation	<u>(395,901)</u>
Ending Balance	\$ <u><u>4,159,682</u></u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 5 - 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.

The estimated portion of the liability for vested vacation and sick leave benefits attributable to the Authority at December 31, 2011 and 2010 is \$32,012 and \$31,810, respectively, and is recorded as an expenditure and liability in each of the respective programs. Of the \$32,012, \$15,917 is due within one year as of December 31, 2011 and is reported as current liabilities. The increase of \$202 in the balance at December 31, 2011 represents amounts earned in 2011 less amounts paid out.

The following is a summary of changes in compensated absences for the year ended March 31, 2011:

<u>Description</u>	<u>Balance</u> <u>2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>
Liability Amount	\$ <u>31,810</u>	\$ <u>38,615</u>	\$ <u>(38,413)</u>	\$ <u>32,012</u>	\$ <u>15,917</u>

NOTE 6 - CHANGE IN UNRESTRICTED NET ASSETS

The following summarizes the change in Unrestricted Net Assets as of December 31, 2011:

Beginning Balance	\$ 97,206
Results of Operations	(284,179)
Adjustments:	
Depreciation (1)	395,901
Change in Debt	(5,250)
Disposal of Assets	<u>-</u>
Adjusted Results from Operations	106,472
Capital Expenditures	(24,481)
Prior Period Adjustment	<u>76,457</u>
Ending Balance	\$ <u>255,654</u>

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 claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

NOTE 8 - 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, 2011, those payments totaled \$38,413.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 9 - 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 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, 2011 is \$56,322.

The detail of the Commission's long term debt as of the year ended December 31, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending 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, 2011.

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>
2012	8,657	77,620	86,277
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
2017-2030	<u>1,132,373</u>	<u>709,688</u>	<u>1,842,061</u>
Total Capital Lease Payments	<u>1,216,809</u>	<u>1,088,553</u>	<u>2,305,362</u>

The detail of the Commission's long term debt as of the year ended December 31, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
MSHDA Mortgages	\$ 500,000	\$ -0-	\$ 500,000
EPC Capital Lease	<u>1,222,059</u>	<u>(5,250)</u>	<u>1,216,809</u>
 Total Notes Payable	 \$ <u>1,722,059</u>	 \$ <u>(5,250)</u>	 \$ <u>1,716,809</u>

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 - DEFINED BENEFIT PENSION PLAN

The Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Commission participates in the Municipal Employees' Retirement System of Michigan ("MERS"), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800)767-6377.

The Commission is not required to contribute to the plan. The Commission's eligible employees are required to contribute 6% of annual covered payroll to participate in the plan. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and amended by the Commission's Board depending on the MERS contribution program adopted by the Commission.

Annual Pension Costs

For the year ended December 31, 2011, the Commission's annual pension cost of \$7,150 for MERS was equal to the administrative fees charged by MERS. The Commission is not required to contribute to the plan per the MERS contribution program adopted by the Commission.

NOTE 11 - POST RETIREMENT BENEFITS

Change in Accounting - The Governmental Accounting Standards Board (GASB) issued statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, in 2004.

GASB Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) and related liabilities and note disclosures in other plans in which the Commission participates. GASB No. 45 was effective for the Commission for the year beginning January 1, 2011. Current Year Expenses include the current year "pay-as-you-go" amount and the recognition of the unfunded current year actuarial recommended contribution (ARC) in the governmental activities. This change had no impact on beginning net assets. The changes in financial reporting as a result of this statement are outlined below.

Plan Description - The Commission employees who participated and retired under the pension plan, described in Note 8, 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 who do not participate under the pension plan, described in Note 8, shall have the same option available upon retirement. Currently, one retired employee receives this benefit. The expense is recognized by the Commission as the payments to the employees are made. During the year ended December 31, 2011, the Commission paid \$6,833.

Funding Policy - The Commission has no obligation to make contributions in advance of when insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The Commission has made no contributions in advance.

Funding Process - For the year ended December 31, 2011, the Commission has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB No. 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize an unfunded actuarial liabilities over a period not to exceed 30 years. This chart was not available when the audit was completed.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 12 - 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, 2011, 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 13 -PRIOR PERIOD ADJUSTMENTS

The Commission recorded an adjustment to correct net assets, which was understated as of December 31, 2011. The adjustment increased the reported net asset amount by \$76,457.

"SEE INDEPENDENT AUDITOR'S REPORT"

CITY OF MANISTEE HOUSING COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Liability {AAL} -Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Percent {a/b}	Covered Payroll {c}	UAAL as a Percentage of Covered Payroll
12/31/2010	\$ 453,795	\$ 347,639	\$ (106,156)	131%	\$ 353,453	0.00%
12/31/2009	\$ 405,962	\$ 323,364	\$ (82,598)	126%	\$ 462,192	0.00%
12/31/2008	\$ 373,361	\$ 290,024	\$ (83,337)	129%	\$ 328,437	0.00%
12/31/2007	\$ 347,061	\$ 275,646	\$ (71,415)	126%	\$ 298,313	0.00%
12/31/2006	\$ 317,826	\$ 222,115	\$ (95,711)	143%	\$ 267,847	0.00%
12/31/2005	\$ 276,658	\$ 180,160	\$ (96,498)	154%	\$ 254,191	0.00%

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2011

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

ASSETS								
111	Cash - Unrestricted	\$283,360	\$56,322	\$0		\$339,682	\$0	\$339,682
113	Cash - Other Restricted	0	0	0		0	0	0
114	Cash - Tenant Security Deposits	51,955	1,638	0		53,593	0	53,593
100	TOTAL CASH	335,315	57,960	0		393,275	0	393,275
121	Accounts Receivable - PHA Projects	0	0	0		0	0	0
122	Accounts Receivable - HUD Other Projects	5,944	0	0		5,944	0	5,944
125	Accounts Receivable - Misc	7,721	0	0		7,721	0	7,721
126	A/R Tenants - Dwelling Rents	2,148	0	0		2,148	0	2,148
126.1	Allowance for Doubtful Accounts	(209)	0	0		(209)	0	(209)
129	Accrued Interest Receivable	23	0	0		23	0	23
120	TOTAL ACCOUNTS RECEIVABLE	15,627	0	0		15,627	0	15,627
142	Prepaid Expenses & Other Assets	25,429	0	0		25,429	0	25,429
144	Interprogram Due From	0	1,852	0		1,852	(1,852)	0
150	TOTAL CURRENT ASSETS	376,371	59,812	0		436,183	(1,852)	434,331
161	Land	360,272	0	0		360,272	0	360,272
162	Buildings	9,380,170	358,705	0		9,738,875	0	9,738,875
163	Furniture and Equipment - Dwellings	216,979	0	0		216,979	0	216,979
164	Furniture and Equipment - Administrative	463,127	25,589	0		488,716	0	488,716
165	Leasehold Improvement	85,905	0	0		85,905	0	85,905
166	Accumulated Depreciation	(6,680,379)	(50,686)	0		(6,731,065)	0	(6,731,065)
167	Construction in Progress	0	0	0		0	0	0
160	TOTAL FIXED ASSETS, NET	3,826,074	333,608	0		4,159,682	0	4,159,682
180	TOTAL NON-CURRENT ASSETS	3,826,074	333,608	0		4,159,682	0	4,159,682
190	TOTAL ASSETS	\$4,202,445	\$393,420	\$0		\$4,595,865	(\$1,852)	\$4,594,013

LIABILITIES								
312	Accounts Payable <=90 Days	\$41,023	\$344	\$0		\$41,367	\$0	\$41,367
321	Accrued Wages/Payroll Taxes	12,081	0	0		12,081	0	12,081
322	Accrued Compensated Absences	15,917	0	0		15,917	0	15,917
331	Accounts Payable - HUD	0	0	0		0	0	0
333	Accounts Payable - Other Governments	38,413	0	0		38,413	0	38,413
341	Tenant Security Deposits	51,955	1,638	0		53,593	0	53,593
342	Deferred Revenue	1,211	0	0		1,211	0	1,211
343	Current Portion of L-T Debt - Capital Projects	8,657	0	0		8,657	0	8,657
345	Other Current Liabilities	0	0	0		0	0	0
347	Interprogram Due To	1,852	0	0		1,852	(1,852)	0
310	TOTAL CURRENT LIABILITIES	171,109	1,982	0		173,091	(1,852)	171,239
351	Long-term Debt, Net of Current -Capital Projects	1,208,152	500,000	0		1,708,152	0	1,708,152
353	Non-current Liabilities - Other	0	0	0		0	0	0
354	Accrued Compensated Absences - Noncurrent	16,095	0	0		16,095	0	16,095
350	TOTAL NONCURRENT LIABILITIES	1,224,247	500,000	0		1,724,247	0	1,724,247
300	TOTAL LIABILITIES	1,395,356	501,982	0		1,897,338	(1,852)	1,895,486
EQUITY								
508.1	Invested in Capital Assets, Net of Related Debt	2,609,265	(166,392)	0		2,442,873	0	2,442,873
512.1	Unrestricted Net Assets	197,824	57,830	0		255,654	0	255,654
513	TOTAL EQUITY	2,807,089	(108,562)	0		2,698,527	0	2,698,527
600	TOTAL LIABILITIES AND EQUITY	\$4,202,445	\$393,420	\$0		\$4,595,865	(\$1,852)	\$4,594,013

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2011

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

REVENUE								
70300	Net Tenant Rental Revenue	\$577,243	\$12,159	\$0		\$589,402	\$0	\$589,402
70400	Tenant Revenue - Other	9,860	0	0		9,860	0	9,860
70500	TOTAL TENANT REVENUE	587,103	12,159	0		599,262	0	599,262
70600	PHA HUD Grants	407,320	81,893	0		489,213	0	489,213
70610	Capital Grants	18,456	0	0		18,456	0	18,456
71100	Investment Income - Unrestricted	1,045	129	0		1,174	0	1,174
71500	Other Revenue	90,281	698	0		90,979	0	90,979
70000	TOTAL REVENUE	1,104,205	94,879	0		1,199,084	0	1,199,084

EXPENSES								
91100	Administrative Salaries	147,734	43,824	0		191,558	0	191,558
91200	Auditing Fees	8,625	0	0		8,625	0	8,625
91400	Advertising and Marketing	0	0	0		0	0	0
91500	Employee Benefit Contribution - Administrative	53,002	13,739	0		66,741	0	66,741
91600	Office Expense	0	0	0		0	0	0
91700	Legal Expense	8,174	0	0		8,174	0	8,174
91800	Travel Expense	2,234	850	0		3,084	0	3,084
91900	Other	70,378	19,305	0		89,683	0	89,683
92400	Tenant Services - Other	51,011	0	0		51,011	0	51,011
93100	Water	33,300	0	0		33,300	0	33,300
93200	Electricity	98,517	0	0		98,517	0	98,517
93300	Gas	40,967	0	0		40,967	0	40,967
94100	Ordinary Maintenance and Operation - Labor	113,993	0	0		113,993	0	113,993
94200	Ordinary Maintenance and Operation - Materials	28,219	0	0		28,219	0	28,219
94300	Ordinary Maintenance and Operation - Cont Cost	67,885	876	0		68,761	0	68,761
94500	Employee Benefit Contribution - Rod Maintenance	70,409	0	0		70,409	0	70,409
95200	Protective Services - Other Contract Costs	3,043	0	0		3,043	0	3,043
96100	Insurance Premiums	77,823	0	0		77,823	0	77,823
96200	Other General Expenses	3,445	370	0		3,815	0	3,815
96210	Compensated Absences	4,487	0	0		4,487	0	4,487
96300	Payments in Lieu of Taxes	38,413	0	0		38,413	0	38,413
96400	Bad Debts - Tenant Rents	10,127	0	0		10,127	0	10,127
96720	Interest on Notes Payable (Short and Long Term)	75,612	0	0		75,612	0	75,612
96900	TOTAL OPERATING EXPENSES	1,007,398	78,964	0		1,086,362	0	1,086,362
97000	EXCESS OPERATING REVENUE OVER							
	EXPENSES	96,807	15,915	0		112,722	0	112,722
OTHER EXPENSES								
97100	Extraordinary - Maintenance	0	0	0		0	0	0
97200	Casualty Losses - Non Capitalized	1,000	0	0		1,000	0	1,000
97400	Depreciation Expense	380,583	15,318	0		395,901	0	395,901
90000	TOTAL EXPENSES	1,388,981	94,282	0		1,483,263	0	1,483,263
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	(284,776)	597	0		(284,179)	0	(284,179)
11030	Beginning Equity	3,018,589	(112,340)	0		2,906,249	0	2,906,249
11040	Prior Period Adjustments, Equity Transfers	73,276	3,181	0		76,457	0	76,457
	ENDING EQUITY	\$2,807,089	(\$108,562)	\$0		\$2,698,527	\$0	\$2,698,527

CITY OF MANISTEE HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
DECEMBER 31, 2011

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

11190	Unit Months Available	2,556	36	0	2,592	0	2,592
11210	Unit Months Leased	2,417	36	0	2,453	0	2,453
11610	Land Purchases	0	0	0	0	0	0
11620	Building Purchases	11,929	0	0	11,929	0	11,929
11630	Furniture & Equipment - Dwelling Purchases	1,615	0	0	1,615	0	1,615
11640	Furniture & Equipment - Administrative Purchases	4,912	0	0	4,912	0	4,912
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, 2011

	<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	305,326 *
Public and Indian Housing Capital Fund Program	14.872	120,450
Resident Opportunity and Supportive Services	14.870	<u>81,893</u>
Total Federal Assistance		\$ <u>507,669</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, 2011

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.

Zenk & Associates, P.C.

Certified Public Accountants

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

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 its business-type activities of the City of Manistee Housing Commission as of and for the year ended December 31, 2011, which collectively comprise the City of Manistee Housing Commission's basic financial statements and have issued our report thereon dated June 18, 2011. 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 opinions 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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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.

We noted certain matters that we reported to management of the City of Manistee Housing Commission, in a separate letter dated June 18, 2012.

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

Zenk & Associates, P.C.

June 18, 2012

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 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, 2011. 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 the 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 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-01.

Internal Control over Compliance

Management of the City 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 considered the City of Manistee Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 City of Manistee Housing Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Manistee Housing Commission's responses and, accordingly, we express no opinion on the responses.

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

Zenk & Associates, P.C.

June 18, 2012

CITY OF MANISTEE HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011

STATUS OF PRIOR FINDINGS

The prior audit report for the year ended December 31, 2010 contained a total of 1 audit finding:

Financial Statement Findings

There are no findings or questioned costs for the year ended December 31, 2010.

Federal Awards Findings

2010-01	Finding:	Public Housing Unit Turnaround Time
	Status:	Implemented

CITY OF MANISTEE HOUSING COMMISSION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 SECTION .505
 YEAR ENDED DECEMBER 31, 2011

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 Program
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, 2011

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

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

3. FINDINGS RELATED TO FEDERAL AWARDS

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

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

Regional Inspector General of Audit
Department of Housing and Urban
Development

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

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

We were engaged to perform an audit in accordance with OMB Circular A-133, Audits of States, Local Government, and Nonprofit Organizations, of the financial statements of the City of Manistee Housing Commission as of the year ended December 31, 2011, and have issued our report thereon dated June 18, 2012. 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 June 18, 2012, 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.

June 18, 2012

CITY OF MANISTEE HOUSING COMMISSION
 AGREED-UPON PROCEDURES
 DECEMBER 31, 2011

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