

NILES HOUSING COMMISSION

Financial Statements (With Supplementary Information)

For the Year Ended December 31, 2009



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Niles Housing Commission

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Niles Housing Commission
Niles, Michigan

We have audited the accompanying financial statements of the business-type activities of the *Niles Housing Commission*, as of and for the year ended December 31, 2009, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *Niles 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 *Governmental 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 *Niles Housing Commission*, as of December 31, 2009, and the respective changes in financial position and cash flows thereof, 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 March 24, 2011, on our consideration of the *Niles Housing Commission's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 on pages 3 through 6 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 *Niles Housing Commission's* basic financial statements. The Financial Data Schedules are presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the *Niles Housing Commission*. 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 or to 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.

Smith + Klaychewicz PC

Saginaw, Michigan

March 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Niles Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2009. Please read it in conjunction with the Housing Commission's financial statements.

Financial Highlights

- Net assets for the Housing Commission were \$2,143,289 for the year ending December 31, 2009 compared to \$2,061,948 for the year ending December 31, 2008.
- The Housing Commission's operating revenues totaled \$812,698 for the year ending December 31, 2009 and \$803,608 for the year ending December 31, 2008, while operating expenses totaled \$998,909 for the year ending December 31, 2009 and \$947,324 for the year ending December 31, 2008

Using This Report

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities of the Housing Commission as a whole and present a longer-term view of the Housing Commission's finances.

Reporting the Housing Commission as a Whole

Our analysis of the Housing Commission as a whole begins on page 7. One of the most important questions asked about the Housing Commission's finances is "Is the Housing Commission, as a whole, better off or worse as a result of the year's activities"? The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows report information about the Housing Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expense are taken into account regardless of when cash is received or paid. These three statements report the Housing Commission's net assets and changes in them. You can think of the Housing Commission's net assets – the difference between assets and liabilities – as one way to measure the Housing Commission's financial health, or financial position. Over time, increases - decreases in the Housing Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows, the Housing Commission's activities are reported as business-type activities:

- Business-type activities – The Housing Commission charges rent to tenants to help cover all or most of the costs of services it provides

Reporting the Housing Commission’s Most Significant Funds

Our analysis of the Housing Commission’s major activities begins on page 7. The financial statements provide detailed information on all of the Housing Commission’s activities. The Housing Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- Proprietary funds – The Housing Commission charges tenants rent for the housing services it provides and these services are reported in the proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Revenues, Expenses and Changes in Net Assets.

Housing Commission – Wide Financial Analysis

The Statement of Net Assets provides the perspective of the Housing Commission as a whole. The following provides a summary of the Housing Commission’s net assets as of June 30, 2009 and 2008.

Niles Housing Commission Statement of Net Assets

	Business-type Activities	
	2009	2008
Current and other assets	\$436,583	\$308,372
Capital assets not being depreciated	463,900	293,439
Capital assets being depreciated	1,502,846	1,586,890
Total assets	2,403,329	2,188,701
Liabilities, current	255,823	108,551
Liabilities, non-current	4,217	18,202
Total liabilities	260,040	126,753
Net assets:		
Invested in capital assets	1,966,746	1,880,329
Unrestricted	176,543	181,619
Total net assets	\$2,143,289	\$2,061,948

This analysis focuses on net assets. The Housing Commission's net assets were \$2,143,289 at December 31, 2009. Capital assets totaling \$1,966,746 compares the original costs, less depreciation of the Housing Commission's capital assets to long-term debt used to finance the acquisition of those assets. For the years ending December 31, 2009 and 2008 the Housing Commission had no debt financing related to capital assets.

The \$176,543 in unrestricted net assets represents the accumulated results of all past years' operations.

The results of this year's operations for the Housing Commission as a whole are reported in the Statement of Revenues, Expense and Changes in Net Assets, as summarized below. This shows the changes in net assets for the year ended December 31, 2009 and 2008.

Niles Housing Commission Statement of Revenues, Expenses and Changes in Net Assets

	Business-type Activities	
	2009	2008
Revenues:		
Charges for services	\$434,322	\$410,048
Program grants and subsidies	619,855	357,881
Other revenue	22,893	25,318
Investment income	3,180	10,361
	1,080,250	803,608
Total revenues		
Expenses	998,909	947,324
Increase (decrease) in net assets	81,341	(143,716)
Net assets at beginning of year	2,061,948	2,205,664
Net assets at end of year	\$ 2,143,289	\$2,061,948

Revenues for the Housing Commission totaled \$1,080,250 for the year ended December 31, 2009 compared to \$803,608 for the year ended December 31, 2008.

An increase in the Housing Commission's capital grants was the primary reason for the increase in revenues in the current year. The Housing Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in operating expenses was due to an increase in administrative expenses related to ongoing legal matters.

Capital Assets

At December 31, 2009, the Housing Commission had a net investment of \$1,966,746 in a broad range of capital assets, including land, buildings, furniture and equipment and leasehold improvements. This amount represents a net increase (including additions and disposals) of \$86,417 or 4.3% from last year.

More detail information is presented in the notes to the financial statements on page 15.

Debt Activity

As of the year ended December 31, 2009, the Housing Commission had \$85,677 in short-term debt outstanding compared to \$0 in the prior year. The debt is a note payable with interest of 3.25% payable in August 2010.

Factors Expected to Have an Effect on Future Operations

The Housing Commission's appointed officials and executive director considered many factors when settling the budget for the fiscal year 2010. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts.

Requests for Information

This financial report is designed to provide a general overview of the Housing Commission's finances for all those with an interest in the Niles Housing Commission. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Niles Housing Commission
Executive Director
251 Cass Street
Niles, MI 49120

Niles Housing Commission
Statement of Net Assets
December 31, 2009

Current assets	
Cash and cash equivalents	\$ 30,492
Cash - tenant security deposits	40,342
Accounts receivable, net	263,219
Investments	98,251
Prepaid expenses	4,279
	436,583
 Noncurrent assets	
Nondepreciable capital assets	462,665
Depreciable capital assets, net	1,504,081
	1,966,746
Total assets	2,403,329
 Current liabilities	
Accounts payable	95,717
Accrued liabilities	11,626
Tenant security deposits	40,342
Unearned revenue	13,461
Accrued compensated absences, current portion	9,000
Note payable	85,677
	255,823
 Noncurrent liabilities	
Accrued compensated absences	4,217
	260,040
 Net assets	
Invested in capital assets	1,966,746
Unrestricted	176,543
	\$ 2,143,289

The accompanying notes are integral part of these financial statements.

Niles Housing Commission
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2009

Operating revenues	
Tenant revenue	\$ 434,322
Program grants - subsidies	355,483
Other income	22,893
Total operating revenues	812,698
Operating expenses	
Administration	156,106
Tenant services	93,038
Utilities	109,725
Maintenance	347,204
Protective services	5,035
Insurance premiums	29,335
General	75,167
Depreciation	183,299
Total operating expenses	998,909
Operating (loss)	(186,211)
Nonoperating revenues and (expenses)	
Capital grants	264,372
Interest income, unrestricted	3,180
Total nonoperating revenues and (expenses)	267,552
Change in net assets	81,341
Net assets - Beginning of year, as restated	2,061,948
Net assets - End of year	\$ 2,143,289

The accompanying notes are integral part of these financial statements.

Niles Housing Commission
Statement of Cash Flows
For the Year Ended December 31, 2009

Cash flows from operating activities	
Cash received from customers	\$ 457,215
Cash received from grants and subsidies	104,385
Cash payments to suppliers for goods and services	(449,480)
Cash payments for wages and related benefits	(320,766)
	(208,646)
 Cash flows from capital and related financing activities:	
Capital grants	264,372
Acquisition of capital assets	(269,717)
	(5,345)
 Cash flows from investing activities	
Sale of investments	91,819
Proceeds from note payable	85,677
Investment income	3,180
	180,676
Net cash provided by (used in) investing activities	180,676
Net increase (decrease) in cash and cash equivalents	(33,315)
Cash and cash equivalents - beginning of year	104,149
Cash and cash equivalents - end of year	\$ 70,834
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (186,211)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	183,299
Changes in assets and liabilities	
Decrease (increase) in receivables	(251,098)
Decrease (increase) in prepaid expenses	6,754
Increase (decrease) in accounts payable	61,841
Increase (decrease) in accrued liabilities	(40,668)
Increase (decrease) in tenant security deposits	8,628
Increase (decrease) in unearned revenue	8,809
	8,809
Net cash provided by (used in) operating activities	\$ (208,646)

The accompanying notes are integral part of these financial statements.

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

The Housing Commission was formed by the City of Niles, Michigan under Public Act 18 of 1933 of the State of Michigan. The Housing Commission operates under a Board of Commissioners appointed by the City Manager.

These financial statements include all activities of the Housing Commission, which include a Low Income Housing Program (180 units). This program receives subsidies and annual contributions from the Department of Housing and Urban Development (“HUD”).

Measurement Focus and Basis of Presentation

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

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

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

Project MI076000100 accounts for the revenue and related operations of the Public and Indian Housing grant and the Capital Fund Program.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to follow subsequent private-sector guidance.

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

Assets and Liabilities

Cash and Cash Equivalents

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

Receivables and Payables

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include land, buildings, furniture and equipment and leasehold improvements, are reported in the financial statements. Capital assets are defined by the Housing 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

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

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

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

Buildings	10 to 40 years
Furniture, equipment and machinery – dwelling	5 to 10 years
Furniture, equipment and machinery – administration	5 to 40 years
Leasehold improvements	10 to 20 years

Compensated Absences

It is the Housing Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Housing Commission. The cost of vested sick leave and vacation days are recognized as an expense when earned by the employee.

Unearned Revenue

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

Equity

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

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

Unrestricted net assets - Consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets".

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

Revenues and Expenses

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

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - DETAILED NOTES ON ALL FUNDS

Deposits and Investments

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

	<u>Carrying Amount</u>
Financial Statement Captions	
Cash and cash equivalents	\$ 30,492
Cash and cash equivalents – tenant security deposits	40,342
Investments	<u>98,251</u>
	<u>\$ 169,085</u>
Notes to Financial Statements	
Cash on hand	\$ 500
Demand deposits (checking)	70,334
Certificates of deposits	<u>98,251</u>
	<u>\$ 169,085</u>

Deposit and investment risk

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

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

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Housing Commission's deposits may not be returned. State law does not require and the Housing Commission does not have a policy for deposit custodial credit risk. At year-end, the entire Housing Commission's bank balance of \$179,701 was not exposed to custodial credit risk because it was insured and collateralized.

Concentration of Credit Risk

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

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

Accounts Receivable

Receivable balances at December 31, 2009 is as follows:

Due from other governments	\$ 258,745
Tenant receivables	6,351
Allowance for doubtful accounts	<u>(1,877)</u>
Tenant receivables, net	<u>\$ 263,219</u>

Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	<u>Balance January 1, 2009</u>	<u>Additions & Transfers</u>	<u>Disposals & Transfers</u>	<u>Balance December 31, 2009</u>
Capital assets not being depreciated				
Land	\$ 227,377	\$ -	\$ -	\$ 227,377
Construction in progress	<u>66,062</u>	<u>240,873</u>	<u>(70,412)</u>	<u>236,523</u>
Total capital assets not being depreciated	<u>293,439</u>	<u>240,873</u>	<u>(70,412)</u>	<u>463,900</u>
Capital assets being depreciated				
Site improvements	254,922	2,645	-	257,567
Buildings	2,494,861	-	-	2,494,861
Building improvements	2,784,761	88,787	-	2,873,548
Non-dwelling structures	100,870	-	-	100,870
Equipment – dwellings	224,690	5,548	-	230,238
Furniture & equipment - admin	<u>288,637</u>	<u>2,276</u>	<u>(7,099)</u>	<u>283,814</u>
Total capital assets being depreciated	<u>6,148,741</u>	<u>99,256</u>	<u>(7,099)</u>	<u>6,240,898</u>
Less accumulated depreciation				
Site improvements	(226,909)	(9,541)	-	(236,450)
Buildings	(2,238,360)	(30,531)	-	(2,268,891)
Building improvements	(1,562,913)	(111,410)	-	(1,674,323)
Non-dwelling structures	(95,826)	(2,522)	-	(98,348)
Equipment – dwellings	(207,257)	(5,186)	-	(212,443)
Furniture & equipment - admin	<u>(230,587)</u>	<u>(24,109)</u>	<u>7,099</u>	<u>(247,597)</u>
Total accumulated depreciation	<u>(4,561,852)</u>	<u>(183,299)</u>	<u>7,099</u>	<u>(4,738,052)</u>
Net capital assets being depreciated	<u>1,586,889</u>	<u>(84,043)</u>	<u>-</u>	<u>1,502,846</u>
Total net capital assets	<u>\$ 1,880,328</u>	<u>\$ 156,830</u>	<u>\$ (70,412)</u>	<u>\$ 1,966,746</u>

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

Long-Term Debt

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2009:

	<u>Balance January 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2009</u>	<u>Amounts Due Within One Year</u>
Note payable	\$ -	\$ 85,677	\$ -	\$ 85,677	\$ 85,677
Accrued compensated absences	<u>23,328</u>	<u>-</u>	<u>(10,111)</u>	<u>13,217</u>	<u>9,000</u>
Total	<u>\$ 23,328</u>	<u>\$ 85,677</u>	<u>\$ (10,111)</u>	<u>\$ 98,894</u>	<u>\$ 94,677</u>

Maturities of the note payable are as follows for the years ending December 31:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 85,677	\$ 240

NOTE C - OTHER INFORMATION

Concentration of Revenue

The Housing Commission is dependent upon the U.S. Department of Housing and Urban Development to fund its operations through operating subsidies and capital funding grants. Total revenue received from the U.S. Department of Housing and Urban Development for 2009 and 2008 was \$619,855 or 57% and \$357,881 or 45% of revenue, respectively.

Contingencies

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

Risk Management

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

Niles Housing Commission

Notes to Financial Statements

For the Year Ended December 31, 2009

Restatements / Prior Period Adjustments

During the year ended December 31, 2009, a restatement in the amount of \$2,013 was necessary to properly account for investments in the Business-type Activities. The error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously stated	\$ 2,063,964
Adjustment for investments	<u>(2,013)</u>
Beginning net assets, as restated	<u>\$ 2,061,951</u>



Niles Housing Commission
Financial Data Schedule
Project Balance Sheet
December 31, 2009

Line Item #	Account Description	Total	Project MI076000100
111	Cash - unrestricted	\$ 30,492	\$ 30,492
114	Cash - tenant security deposits	40,342	40,342
100	Total Cash	<u>70,834</u>	<u>70,834</u>
122	Accounts receivable - HUD other projects	258,745	258,745
126	Accounts receivable - tenants	6,351	6,351
126.1	Allowance for doubtful accounts - tenants	(1,877)	(1,877)
120	Total receivables, net of allowance for doubtful accts	<u>263,219</u>	<u>263,219</u>
131	Investments - unrestricted	98,251	98,251
142	Prepaid expenses and other assets	4,279	4,279
150	Total Current Assets	<u>436,583</u>	<u>436,583</u>
161	Land	227,377	227,377
162	Buildings	5,469,279	5,469,279
163	Furniture, equipment & machinery - dwellings	231,473	231,473
164	Furniture, equipment & machinery - administration	283,814	283,814
165	Leasehold improvements	257,567	257,567
166	Accumulated depreciation	(4,738,052)	(4,738,052)
167	Construction in progress	235,288	235,288
160	Total capital assets net of accumulated depreciation	<u>1,966,746</u>	<u>1,966,746</u>
180	Total Non-Current Assets	<u>1,966,746</u>	<u>1,966,746</u>
190	Total Assets	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>

Niles Housing Commission
Financial Data Schedule
Project Balance Sheet (Continued)
December 31, 2009

Line Item #	Account Description	Total	Project MI076000100
312	Accounts payable <= 90 days	\$ 70,026	\$ 70,026
321	Accrued wage / payroll taxes payable	11,626	11,626
322	Accrued compensated absences - current portion	9,000	9,000
333	Accounts payable - other government	25,691	25,691
341	Tenant security deposits	40,342	40,342
342	Deferred revenue	13,461	13,461
348	Loan liability - Current	85,677	85,677
310	Total Current Liabilities	<u>255,823</u>	<u>255,823</u>
354	Accrued compensated absences - noncurrent	4,217	4,217
350	Total noncurrent liabilities	<u>4,217</u>	<u>4,217</u>
300	Total Liabilities	<u>260,040</u>	<u>260,040</u>
508.1	Investment in capital assets, net of related debt	1,966,746	1,966,746
512.1	Unrestricted net assets	176,543	176,543
513	Total Net Assets	<u>2,143,289</u>	<u>2,143,289</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>

**Niles Housing Commission
Financial Data Schedule
Project Income Statement
For the Year Ended December 31, 2009**

Line Item #	Account Description	Total Projects	MI076000100	Operating Fund Program	Capital Fund Program
70300	Net tenant rental revenue	\$ 430,994	\$ 430,994	\$ 430,994	\$ -
70400	Tenant Revenue - Other	3,328	3,328	3,328	-
70500	Total Tenant Revenue	<u>434,322</u>	<u>434,322</u>	<u>434,322</u>	<u>-</u>
70600	HUD PHA operating grants	355,483	355,483	276,300	79,183
70610	Capital grants	264,372	264,372	-	264,372
71100	Investment income - unrestricted	3,180	3,180	3,180	-
71500	Other revenue	22,793	22,793	22,793	-
71600	Gain or Loss on Sale of Capital Assets	100	100	100	-
91000	Total Revenue	<u>1,080,250</u>	<u>1,080,250</u>	<u>736,695</u>	<u>343,555</u>
91100	Administrative salaries	42,763	42,763	42,763	-
91200	Auditing fees	5,500	5,500	-	5,500
91500	Employee benefit contributions - administrative	7,945	7,945	7,931	14
91700	Legal expenses	22,280	22,280	22,280	-
91800	Travel	11,082	11,082	9,529	1,553
91900	Other	66,536	66,536	60,344	6,192
91000	Total Operating-Administrative	<u>156,106</u>	<u>156,106</u>	<u>142,847</u>	<u>13,259</u>
92100	Tenant services - salaries	66,506	66,506	66,506	-
92300	Employee benefit contributions - tenant services	23,799	23,799	22,618	1,181
92400	Tenant services - other	2,733	2,733	2,733	-
92500	Total tenant services	<u>93,038</u>	<u>93,038</u>	<u>91,857</u>	<u>1,181</u>
93100	Water	20,816	20,816	20,816	-
93200	Electricity	45,154	45,154	45,154	-
93300	Gas	43,755	43,755	43,755	-
93000	Total Utilities	<u>109,725</u>	<u>109,725</u>	<u>109,725</u>	<u>-</u>
	Ordinary maintenance and operations:				
94100	Labor	169,237	169,237	169,237	-
94200	Materials & other	65,471	65,471	60,398	5,073
94300	Ordinary Maintenance and Operations Contracts	70,259	70,259	63,516	6,743
94500	Employee benefit contributions	40,677	40,677	38,409	2,268
94000	Total Maintenance	<u>345,644</u>	<u>345,644</u>	<u>331,560</u>	<u>14,084</u>

**Niles Housing Commission
Financial Data Schedule
Project Income Statement (Continued)
For the Year Ended December 31, 2009**

Line Item #	Account Description	Total Projects	MI076000100	Operating Fund Program	Capital Fund Program
95100	Protective services - Labor	\$ 1,592	\$ 1,592	\$ 1,592	\$ -
95200	Protective services - Other contract costs	3,321	3,321	3,321	-
95500	Employee Benefit Contributions - Protective Services	122	122	122	-
95000	Total protective services	<u>5,035</u>	<u>5,035</u>	<u>5,035</u>	<u>-</u>
96140	All other insurance	29,335	29,335	29,335	-
96100	Total insurance premiums	<u>29,335</u>	<u>29,335</u>	<u>29,335</u>	<u>-</u>
96200	Other general expense	8,360	8,360	8,360	-
96210	Compensated Absences	35,429	35,429	35,429	-
96300	Payment in lieu of taxes	25,691	25,691	25,691	-
96400	Bad debt - tenant rents	5,687	5,687	5,687	-
96000	Total Other General Expenses	<u>75,167</u>	<u>75,167</u>	<u>75,167</u>	<u>-</u>
96900	Total Operating Expenses	<u>814,050</u>	<u>814,050</u>	<u>785,526</u>	<u>28,524</u>
97000	Excess Revenue Over Operating Expenses	<u>266,200</u>	<u>266,200</u>	<u>(48,831)</u>	<u>315,031</u>
97100	Extraordinary maintenance	1,560	1,560	1,560	-
97400	Depreciation expense	<u>183,299</u>	<u>183,299</u>	<u>179,160</u>	<u>4,139</u>
90000	Total Expenses	998,909	998,909	966,246	32,663
10010	Operating transfer in	49,423	49,423	49,423	-
10020	Operating transfer out	<u>(49,423)</u>	<u>(49,423)</u>	<u>-</u>	<u>(49,423)</u>
10100	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>49,423</u>	<u>(49,423)</u>
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	81,341	81,341	(180,128)	261,469
11030	Beginning equity	2,063,961	2,063,961	1,901,663	162,298
11040	Prior period adjustments, equity transfers and correction of errors	(2,013)	(2,013)	(2,013)	-
11190	Unit months available	2,160	2,160	2,160	-
11210	Unit months leased	1,892	1,892	1,892	-
11270	Excess cash	80,770	80,770	80,770	-
11620	Building Purchases	202,443	202,443	-	202,443
11630	Furniture & Equipment - Dwelling Purchases	4,349	4,349	-	4,349
11640	Furniture & Equipment - Administrative Purchases	2,276	2,276	-	2,276

Niles Housing Commission
Financial Data Schedule
PHA Financial Data - Balance Sheet
December 31, 2009

Line Item #	Account Description	Project Totals	Subtotal	Total
111	Cash - unrestricted	\$ 30,492	\$ 30,492	\$ 30,492
114	Cash - tenant security deposits	40,342	40,342	40,342
100	Total Cash	<u>70,834</u>	<u>70,834</u>	<u>70,834</u>
122	Accounts receivable - HUD other projects	258,745	258,745	258,745
126	Accounts receivable - tenants	6,351	6,351	6,351
126.1	Allowance for doubtful accounts - tenants	<u>(1,877)</u>	<u>(1,877)</u>	<u>(1,877)</u>
120	Total receivables, net of allowance for doubtful accounts	<u>263,219</u>	<u>263,219</u>	<u>263,219</u>
131	Investments - unrestricted	98,251	98,251	98,251
142	Prepaid expenses and other assets	<u>4,279</u>	<u>4,279</u>	<u>4,279</u>
150	Total Current Assets	<u>436,583</u>	<u>436,583</u>	<u>436,583</u>
161	Land	227,377	227,377	227,377
162	Buildings	5,469,279	5,469,279	5,469,279
163	Furniture, equipment & machinery - dwellings	231,473	231,473	231,473
164	Furniture, equipment & machinery - administration	283,814	283,814	283,814
165	Leasehold improvements	257,567	257,567	257,567
166	Accumulated depreciation	(4,738,052)	(4,738,052)	(4,738,052)
167	Construction in progress	<u>235,288</u>	<u>235,288</u>	<u>235,288</u>
160	Total capital assets, net of accumulated depreciation	<u>1,966,746</u>	<u>1,966,746</u>	<u>1,966,746</u>
180	Total Non-Current Assets	<u>1,966,746</u>	<u>1,966,746</u>	<u>1,966,746</u>
190	Total Assets	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>

Niles Housing Commission
Financial Data Schedule
PHA Financial Data - Balance Sheet (Concluded)
December 31, 2009

Line Item #	Account Description	Project Totals	Subtotal	Total
312	Accounts payable <= 90 days	\$ 70,026	\$ 70,026	\$ 70,026
321	Accrued wage / payroll taxes payable	11,626	11,626	11,626
322	Accrued compensated absences - current portion	9,000	9,000	9,000
333	Accounts payable - other government	25,691	25,691	25,691
341	Tenant security deposits	40,342	40,342	40,342
342	Deferred revenue	13,461	13,461	13,461
348	Loan liability - Current	85,677	85,677	85,677
310	Total Current Liabilities	<u>255,823</u>	<u>255,823</u>	<u>255,823</u>
354	Accrued compensated absences - noncurrent	4,217	4,217	4,217
350	Total noncurrent liabilities	<u>4,217</u>	<u>4,217</u>	<u>4,217</u>
300	Total Liabilities	<u>260,040</u>	<u>260,040</u>	<u>260,040</u>
508.1	Investment in capital assets, net of related debt	1,966,746	1,966,746	1,966,746
512.1	Unrestricted net assets	176,543	176,543	176,543
513	Total Net Assets	<u>2,143,289</u>	<u>2,143,289</u>	<u>2,143,289</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>	<u>\$ 2,403,329</u>

**Niles Housing Commission
Financial Data Schedule
PHA Financial Data - Income Statement
For the Year Ended December 31, 2009**

Line Item #	Account Description	Project Totals	Subtotal	Total
70300	Net tenant rental revenue	\$ 430,994	\$ 430,994	\$ 430,994
70400	Tenant Revenue - Other	3,328	3,328	3,328
70500	Total Tenant Revenue	<u>434,322</u>	<u>434,322</u>	<u>434,322</u>
70600	HUD PHA operating grants	355,483	355,483	355,483
70610	Capital grants	264,372	264,372	264,372
71100	Investment income - unrestricted	3,180	3,180	3,180
71500	Other revenue	22,793	22,793	22,793
71600	Gain or Loss on Sale of Capital Assets	100	100	100
70000	Total Revenue	<u>1,080,250</u>	<u>1,080,250</u>	<u>1,080,250</u>
91100	Administrative salaries	42,763	42,763	42,763
91200	Auditing fees	5,500	5,500	5,500
91500	Employee benefit contributions - administrative	7,945	7,945	7,945
91700	Legal expenses	22,280	22,280	22,280
91800	Travel	11,082	11,082	11,082
91900	Other	66,536	66,536	66,536
91000	Total Operating-Administrative	<u>156,106</u>	<u>156,106</u>	<u>156,106</u>
92100	Tenant services - salaries	66,506	66,506	66,506
92300	Employee benefit contributions - tenant services	23,799	23,799	23,799
92400	Tenant services - other	2,733	2,733	2,733
92500	Total tenant services	<u>93,038</u>	<u>93,038</u>	<u>93,038</u>
93100	Water	20,816	20,816	20,816
93200	Electricity	45,154	45,154	45,154
93300	Gas	43,755	43,755	43,755
93000	Total Utilities	<u>109,725</u>	<u>109,725</u>	<u>109,725</u>
	Ordinary maintenance and operations:			
94100	Labor	169,237	169,237	169,237
94200	Materials & other	65,471	65,471	65,471
94300	Ordinary Maintenance and Operations Contracts	70,259	70,259	70,259
94500	Employee benefit contributions	40,677	40,677	40,677
94000	Total Maintenance	<u>345,644</u>	<u>345,644</u>	<u>345,644</u>

Niles Housing Commission
Financial Data Schedule
PHA Financial Data - Income Statement (Concluded)
For the Year Ended December 31, 2009

Line Item #	Account Description	Project Totals	Subtotal	Total
95100	Protective services - Labor	\$ 1,592	\$ 1,592	\$ 1,592
95200	Protective services - Other contract costs	3,321	3,321	3,321
95500	Employee Benefit Contributions - Protective Services	122	122	122
95000	Total protective services	<u>5,035</u>	<u>5,035</u>	<u>5,035</u>
96140	All other insurance	29,335	29,335	29,335
96100	Total insurance premiums	<u>29,335</u>	<u>29,335</u>	<u>29,335</u>
96200	Other general expense	8,360	8,360	8,360
96210	Compensated Absences	35,429	35,429	35,429
96300	Payment in lieu of taxes	25,691	25,691	25,691
96400	Bad debt - tenant rents	5,687	5,687	5,687
96000	Total Other General Expenses	<u>75,167</u>	<u>75,167</u>	<u>75,167</u>
96900	Total Operating Expenses	<u>814,050</u>	<u>814,050</u>	<u>814,050</u>
97000	Excess Revenue Over Operating Expenses	266,200	266,200	266,200
97100	Extraordinary maintenance	1,560	1,560	1,560
97400	Depreciation expense	<u>183,299</u>	<u>183,299</u>	<u>183,299</u>
90000	Total Expenses	998,909	998,909	998,909
10010	Operating transfer in	49,423	49,423	49,423
10020	Operating transfer out	<u>(49,423)</u>	<u>(49,423)</u>	<u>(49,423)</u>
10100	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	81,341	81,341	81,341
11030	Beginning equity	2,063,961	2,063,961	2,063,961
11040	Prior period adjustments, equity transfers and correction of errors	(2,013)	(2,013)	(2,013)



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

**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**

Members of the Board of Commissioners
Niles Housing Commission
Niles, Michigan

We have audited the financial statements of the business-type activities of the *Niles Housing Commission*, as of and for the year ended December 31, 2009, which collectively comprise the Housing Commission's basic financial statements and have issued our report thereon dated March 24, 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 *Niles 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 *Niles Housing Commission's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Niles 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs and 2009-1, 2009-2, 2009-3 and 2009-4 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Niles 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2009-1, 2009-2, 2009-3 and 2009-4

We noted certain matters that we reported to management of the *Niles Housing Commission*, in a separate letter dated March 24, 2011.

The *Niles 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 *Niles Housing Commission's* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and 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.

Smith + Klayhewicz PC

Saginaw, Michigan

March 24, 2011



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Commissioners
Niles Housing Commission
Niles, Michigan

Compliance

We have audited the *Niles 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 *Niles Housing Commission's* major federal programs for the year ended December 31, 2009. The *Niles 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 *Niles Housing Commission's* management. Our responsibility is to express an opinion on the *Niles 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *Niles 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 of the *Niles Housing Commission's* compliance with those requirements.

As described in items 2009-5 and 2009-6 in the accompanying schedule of findings and questioned costs, the *Niles Housing Commission*, did not comply with requirements regarding Equipment and Real Property Management and Davis-Bacon that are applicable to its Public Housing Capital Fund program. Compliance with such requirements is necessary, in our opinion, for the *Niles Housing Commission*, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the *Niles 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, 2009.

Internal Control over Compliance

Management of the *Niles Housing Commission's* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the *Niles Housing Commission's* internal control over compliance with the 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 *Niles Housing Commission's* internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-5 and 2006 to be material weaknesses.

The *Niles 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 *Niles 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 organization, and 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.

Smith + Klawnschewitz PC

Saginaw, Michigan

March 24, 2011

Niles Housing Commission
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009

Federal Agency / Pass Through Agency / Program Title	Federal CFDA Number	Amount Expended
Department of Housing and Urban Development		
Direct programs:		
Public and Indian Housing	14.850	\$ 276,300
Public Housing Capital Fund	14.872	<u>343,555</u>
Total Expenditures of Federal Awards		<u>\$ 619,855</u>

Footnotes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Niles Housing Commission under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of the Niles Housing Commission, it is not intended to and does not present the financial position or changes in net assets of the Niles Housing Commission.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Subrecipients

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

Niles Housing Commission
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting

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

Noncompliance material to financial statements noted? _____ **X** Yes _____ No

Federal Awards

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

Internal control over major program(s)

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

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

Identification of major program(s):

CFDA Number	Name of Federal Program(s) or Cluster(s)
14.872	Public Housing Capital Fund

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

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

Niles Housing Commission
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

SECTION II – Financial Statement Findings

Finding 2009-1 – Tenant File Discrepancies

Criteria

Housing Commissions are required to obtain supportive documentation of income from tenants on an annual basis through the recertification process. This documentation may be in the form of copies of bank statements, paycheck stubs and various receipts for certain expenses that a tenant may have. The information obtained must be entered into the Tenant Itemized Worksheet so that the tenants' rent can be accurately calculated. Along with the information provided by the tenant, Housing Commissions are required to verify certain information through the U.S. Department of Housing and Urban Development's (HUD) Earned Income Verification (EIV) system. The information obtained through this method should be reflected in the Tenant Itemized Worksheet so that the calculation of monthly rent subsidy can be determined accurately. In addition, a copy of the Tenant Itemized Worksheet should be included in the tenants' file.

Condition

Of the sixty (60) tenant files that were examined:

- Information that was entered into the Tenant Itemized Worksheets did not agree to supportive documentation provided by the tenants (bank statements, check stubs, etc.) for three (3) of the tenant files examined.
- Five (5) tenant files contained different amounts between the EIV and the Tenant Itemized Worksheet
- One (1) tenant file did not contain a copy of the Tenant Itemized Worksheet

Cause

During the fiscal year ended December 31, 2009, the Housing Commission experienced turnover in key positions. This turnover resulted in the Housing Commission not having adequate controls in place to ensure that all required information was included in the tenants' file, along with ensuring that accurate information was used in calculating the tenants' monthly rent.

Effect

As a result of this condition, the Housing Commission lacks internal controls over the process for ensuring that tenant rent is properly calculated. This situation could result in a tenant being charged an improper amount for rent which in turn could result in the Housing Commission receiving an inaccurate amount in HUD subsidies.

View of Responsible Officials

These actions were taken during the previous administration. We have taken steps to correct the errors and steps have been taken to prevent this from happening in the future.

Niles Housing Commission
Schedule of Findings and Questioned Costs
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Finding 2009-2 – Earnings Not Reported on Form W-2 or 1099

Criteria

Amounts paid as wages to employees of the Housing Commission are required to be reported as earnings on Internal Revenue Service (IRS) form W-2. Annual amounts paid in excess of \$600 to contracted service providers (with certain exclusions) are required to be reported on IRS form 1099.

Condition

During our examination of tenant files, we identified that the Housing Commission provided a tenant with a “rent adjustment” of \$112 a month during 2009 in exchange for security guard services that the tenant was providing for the Housing Commission. The compensation of \$112 a month was included on the Tenant Itemized Worksheet and was verified through HUD’s EIV. However, the Housing Commission did not report the rent adjustment as earned income of the tenant on either an IRS form W-2 or 1099.

Cause

The Housing Commission’s internal control procedures were not sufficient to ensure that the annual amount of the rent adjustment was reported as earned income of the tenant.

Effect

The Housing Commission did not properly report earned income of the tenant to the IRS.

View of Responsible Officials

These actions were taken during the previous administration. We have taken steps to correct the errors and steps have been taken to prevent this from happening in the future.

**Niles Housing Commission
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009**

Finding 2009-3 – Adjustments to Tenant Rent

Criteria

Rent amounts identified in a “rental agreement” may only be adjusted for either, a change in a tenant’s income status, or as a result of the annual recertification process.

Condition

As a result of our procedures, we identified that a former Director of the Housing Commission made adjustments to a tenant’s outstanding balance of unpaid rent. The description of the adjustments indicated that they were made for “hardship”. We are not aware of any authoritative literature that allows for hardship adjustments to balances of unpaid tenant rent.

Cause

The Housing Commission’s internal control procedures were not sufficient to prevent or detect manual adjustments being posted to outstanding balances of unpaid rent for hardship.

Effect

Adjustments were made to outstanding balances of unpaid rent for reasons other than a change in income status or as a result of the annual recertification process.

View of Responsible Officials

These actions were taken during the previous administration. We have taken steps to correct the errors and steps have been taken to prevent this from happening in the future.

Niles Housing Commission
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Finding 2009-4 – Tenant Participation Funds

Criteria

According to 24 CFR section 964.150, when tenant participation funds are provided to a PHA, the PHA must provide those funds to duly elected resident councils. Funding provided by a PHA to a duly elected resident council may be made only under a written agreement between the PHA and the resident council that includes a resident council budget. The agreement must require the local resident council to account to the PHA for the use of the funds and permit the PHA to inspect and audit the resident council's financial records related to the agreement.

Condition

As a result of our procedures, we determined that the Housing Commission does inspect the financial records of the resident council, however the resident council does not adopt an annual budget prior to the beginning of the fiscal year.

Cause

The Housing Commission was unaware of this requirement and therefore did not require the resident council to adopt an annual budget.

Effect

As a result of this condition, the Housing Commission is unable to effectively monitor the financial activity of the resident council.

View of Responsible Officials

These actions were taken during the previous administration. We have taken steps to correct the errors and steps have been taken to prevent this from happening in the future.

Niles Housing Commission
Schedule of Findings and Questioned Costs
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SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

Finding Number: 2009-5

CFDA Number: 14.872

Program Title: Public Housing Capital Fund

Federal Award Year: 2009

Compliance Requirement: Equipment and Real Property Management

Finding Type: Material Weakness

Questioned Cost: None

Criteria: For a recipient of direct federal awards, an entity must perform a physical inventory of equipment that is purchased with federal awards every two years.

Condition: The *Niles Housing Commission* did not conduct a physical inventory of its equipment.

Cause: The Housing Commission's existing control procedures do not require that a physical inventory of equipment be performed every two years.

Effect: The *Niles Housing Commission's* components of internal control and control activities over the tracking of equipment does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with this requirement.

Recommendation: The *Niles Housing Commission* should perform a physical inventory of all equipment every two years. The Housing Commission should also consider acquiring software that would ease the tracking and recording of equipment and depreciation.

View of Responsible Officials / Corrective Action Plan:

These actions were taken during the previous administration. We have taken steps to implement an inventory control program.

Niles Housing Commission
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For the Year Ended December 31, 2009

Finding Number: 2009-6

CFDA Number: 14.872

Program Title: Public Housing Capital Fund

Federal Award Year: 2009

Compliance Requirement: Davis - Bacon

Finding Type: Material Weakness

Questioned Cost: None

Criteria: According to OMB Circular A-133, 24 CFR part 941, "Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6)."

Condition: In 2009, the Housing Commission entered into contracts that were funded with Public Housing Capital Fund grant proceeds and therefore subject to provisions of the Davis-Bacon Act. The Housing Commission did not require contractors to submit copies of certified payrolls or statements of compliance during the contract period.

Cause: The Housing Commission's existing control procedures did not require contractors to submit copies of certified payrolls or statements of compliance during the contract period. Management was not familiar with compliance provisions of the Davis-Bacon Act.

Effect: The Housing Commission did not comply with provisions of the Davis-Bacon Act and is therefore unable to determine that all laborers and mechanics employed by contractors or subcontractors that worked on the contracts were paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Recommendation: We recommend that the Housing Commission develop and implement procedures to ensure compliance with applicable provisions of the Davis-Bacon Act.

View of Responsible Officials / Corrective Action Plan:

These actions were taken during the previous administration. We have taken steps to correct the errors and steps have been taken to prevent this from happening in the future.

Niles Housing Commission
Schedule of Findings and Questioned Costs
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SECTION IV – Summary Schedule of Prior Year Findings

Finding 2008-1 – Lack of documented internal control policies and procedures

Status: This findings has been cleared during the current fiscal year.

Finding 2008-2 – Lack of review process as part of its internal controls over annual certifications and interim re-examinations.

Status: - This finding has been cleared during the current fiscal year.

Finding 2008-3 – Lack of internal control policies and procedures related to safeguarding its capital assets or conducting a physical inventory of capital assets.

Status: This finding has been repeated in the current fiscal year.

Finding 2008-4 – Lack of documentation of approval invoices and only one signature on checks.

Status: This finding has been cleared during the fiscal year.



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

March 24, 2011

To the Board of Commissioners
Niles Housing Commission
Niles, Michigan

In planning and performing our audit of the financial statements of the *Niles Housing Commission* for the year ended December 31, 2009, we considered the organization's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls. However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated March 24, 2011, on the financial statements of the *Niles Housing Commission*.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various management personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendations.

Very truly yours,

Smith + Klaczkiwicz PC

Saginaw, Michigan

1) Posting of Expenses to Improper General Ledger Account

As a result of our audit procedures we identified that several employee travel-related expenses were posted to a materials expense account on the general ledger.

Recommendation:

We recommend that the Housing Commission carefully examine each invoice to ensure that expenses are posted to proper general ledger accounts.

2) Credit Card Statements as Supportive Documentation of Expenses

A strong system of internal control requires that expenses are supported with adequate supportive documentation. As a result of our procedures, we identified that several payments made to the bank that issued the Housing Commission's credit card were supported with only a credit card statement and not with original store receipts or other source documentation. Without original source documentation, it is difficult for the Housing Commission to ensure that credit card purchases are appropriate and are posted to the correct general ledger account.

Recommendation:

We recommend that the Housing Commission maintain all original purchase documentation for purchases made with a credit card.

3) Credit Card Policy

Public Act 266 of 1995 authorizes the use of credit cards by local units of government (Housing Commissions) for appropriate expenses. The act also sets specific criteria which must be followed when credit cards are used for purchases made by a local unit of government. Among other matters, the act requires that the governmental unit adopt by resolution, a written credit card policy that contains specific criteria.

The Housing Commission uses a credit card to make purchases, but does not have a written credit card policy.

Recommendation:

We recommend that the Housing Commission refer to Michigan Department of Treasury Numbered Letter 1996-2 and Public Act 266 of 1995 and develop, adopt and implement a credit card policy in accordance with the requirements of the act.

4) Bonus Pay and Merit Awards

As a result of our procedures, we identified that the Housing Commission paid merit awards and bonuses to employees through the accounts payable system and not through the payroll system. Merit awards and bonuses are considered employee compensation and should be reported as income earned by the employee. By processing these payments through accounts payable, the Housing Commission understated the amount of income earned by employees.

Recommendation:

We recommend that the Housing Commission process employee bonuses, merit pay and any other employee compensation only through the payroll system to ensure that all income earned by employees is properly reported to taxing authorities.

5) Violation of the Revised Municipal Finance Act of 2001

The Revised Municipal Finance Act of 2001 allows local units of government to enter into loan agreements only if allowed by statutory authority or by obtaining applicable Department of Treasury approval.

In December 2009, the Housing Commission entered into a business loan agreement with a local bank for the purpose of obtaining a loan to meet immediate cash needs.

We are not aware of any statutory authority that would allow the Housing Commission to obtain a loan in this manner and the Housing Commission did not obtain approval for the loan from the Department of Treasury.

Recommendation:

We recommend that the Housing Commission contact the Local Audit and Finance Division of the Michigan Department of Treasury to determine the appropriate action necessary to remedy this situation.

6) Board Meeting Minutes

Section 15.269 of the Open Meetings Act (Act 276 of 1976) requires that minutes of meetings of a public body are kept, made available for public inspection within eight (8) business days after the meeting to which the minutes refer and approved minutes are made available for public inspection within five (5) business days after the meeting at which the minutes are approved by the governing body.

As a result of our procedures, it was determined that the Housing Commission did not prepare or approve minutes of meetings of the Board of Commissioners in accordance with provisions of the act during a period of time during calendar years 2009 and 2010.

Recommendation:

We recommend that the Housing Commission develop and implement procedures related to board minutes to ensure compliance with applicable provisions of the Open Meetings Act.

7) Board Reports

During these difficult financial times, reviewing current financial information can be crucial to making informed financial decisions for an organization. Currently, the Board of Commissioners does not receive nor review current financial information.

Recommendation:

We recommend that the Housing Commission adopt a standing agenda for board meetings that includes a review of current financial information, including (at a minimum) reports of cash balances, revenue / cash receipts and expense / cash disbursements.

8) Approval of Disbursements

All disbursements must be approved by the legislative body (Board of Commissioners) prior to issuance. As a result of our procedures, it was determined that the Housing Commission does not retain documentation of the Board's approval of disbursements prior to issuance.

Recommendation:

We recommend that the Board of Commissioners approve all disbursements prior to issuance and that the Board's approval of the disbursements be documented in the meeting minutes or by other means to allow record of the Board's approval.