

NILES HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2007

NILES HOUSING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	3-4
Management Discussion and Analysis	5-8
Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Statement of Revenues, Expenses, and Change in Net Assets.....	11
Statement of Cash Flows.....	12
Notes to Financial Statements	13-20
Supplemental Information:	
Financial Data Schedule.....	22-26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	27-28
Schedule of Findings and Responses.....	29-31

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Niles Housing Commission
Niles, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Niles Housing Commission as of and for the year ended December 31, 2007 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the 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 basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2007, 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 December 19, 2008 on our consideration of the Niles Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Niles Housing Commission's basic financial statements. The Financial Data Schedule is 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 Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 19, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2007. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$2,207,677 for the year ended December 31, 2007 compared to \$2,334,873 for the year ended December 31, 2006.
- The Commission's revenues totaled \$821,474 for the year ended December 31, 2007 and \$943,965 for the year ended December 31, 2006, while operating expenses totaled \$948,670 for the year ended December 31, 2007 and \$1,088,550 for the year ended December 31, 2006.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows report information about the 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 expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the 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 Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows the Commission's activities are reported as business-type activities:

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

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

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

THE COMMISSION AS A WHOLE

The Commission's combined net assets for the year ended December 31, 2007 decreased \$(127,196) from the year ended December 31, 2006.

Table 1

NET ASSETS

	December 31,	
	2007	2006
Assets		
Current assets	\$ 295,010	\$ 247,687
Capital assets (net)	<u>2,021,055</u>	<u>2,192,715</u>
Total assets	<u>2,316,065</u>	<u>2,440,402</u>
Liabilities		
Current liabilities	92,609	91,353
Noncurrent liabilities	<u>15,779</u>	<u>14,176</u>
Total liabilities	<u>108,388</u>	<u>105,529</u>
Net Assets		
Invested in capital assets, net of related debt	2,021,055	2,192,715
Unrestricted	<u>186,622</u>	<u>142,158</u>
Net Assets	<u>\$2,207,677</u>	<u>\$2,334,873</u>

Net assets of the Commission stood at \$2,207,677 for the year ended December 31, 2007 compared to \$2,334,873 for the year ended December 31, 2006. Unrestricted net business assets were \$186,622 for the year ended December 31, 2007 compared to \$142,158 for the year ended December 31, 2006. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The increase in current assets was largely due to a \$44,184 increase in cash and investments. The increase in current liabilities was largely due to a \$11,264 decrease in accounts payable and a \$12,520 increase in accrued liabilities.

Table 2**CHANGE IN NET ASSETS**

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 422,995	\$ 402,521
Program grants and subsidies	359,941	492,825
General revenues:		
Other revenues	27,247	38,263
Unrestricted investment earnings	<u>11,291</u>	<u>10,356</u>
Total revenues	821,474	943,965
Program Expenses:		
Operating expenses	<u>948,670</u>	<u>1,088,550</u>
Change in net assets	(127,196)	(144,585)
Net assets - beginning of period	<u>2,334,873</u>	<u>2,479,458</u>
Net assets - end of period	<u>\$2,207,677</u>	<u>\$ 2,334,873</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$821,474 for the year ended December 31, 2007 compared to \$943,965 for the year ended December 31, 2006. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The decrease in operating expenses was due to a \$31,496 decrease in administrative expenses, a \$43,068 decrease in maintenance expenses, a \$44,621 decrease in protective services, and a \$21,759 decrease in general expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$6,368,220 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2007 compared to \$6,322,166 for the year ended December 31, 2006.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2007	2006
Land	\$ 227,377	\$ 227,377
Building and improvements	5,609,227	5,585,798
Equipment	507,777	508,991
Construction in progress	<u>23,839</u>	<u>-</u>
Total	6,368,220	6,322,166
Less accumulated depreciation	<u>(4,347,165)</u>	<u>(4,129,451)</u>
NET CAPITAL ASSETS	<u>\$2,021,055</u>	<u>\$2,192,715</u>

The Commission invested \$46,054 in capital assets during the year ended December 31, 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the calendar year 2008. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2008 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Interim Executive Director, Bryant Bacon, at 251 Cass Street, Niles, Michigan 49120, or call 269-683-2783.

NILES HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2007

CURRENT ASSETS:	
Cash and equivalents	\$ 41,611
Accounts receivable	4,344
Investments	230,646
Prepaid expenses	<u>18,409</u>
TOTAL CURRENT ASSETS	<u>295,010</u>
NONCURRENT ASSETS:	
Capital assets	6,368,220
Less accumulated depreciation	<u>(4,347,165)</u>
NET CAPITAL ASSETS	<u>2,021,055</u>
TOTAL ASSETS	<u>2,316,065</u>
CURRENT LIABILITIES:	
Accounts payable	17,526
Accrued liabilities	<u>75,083</u>
TOTAL CURRENT LIABILITIES	92,609
NONCURRENT LIABILITIES	<u>15,779</u>
TOTAL LIABILITIES	<u>108,388</u>
NET ASSETS:	
Investment in capital assets, net of related debt	2,021,055
Unrestricted net assets	<u>186,622</u>
NET ASSETS	<u>\$ 2,207,677</u>

The accompanying notes to financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating, Grants and Contributions</u>	
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Public Housing	\$ 948,670	\$ 422,995	\$ 329,815	\$ 30,126
				\$ (165,734)
General revenues:				
Other revenues				27,247
Unrestricted investment earnings				11,291
Total general revenues				38,538
Change in net assets				(127,196)
NET ASSETS, beginning of year				2,334,873
NET ASSETS, end of year				\$ 2,207,677

The accompanying notes to the financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2007

OPERATING REVENUES:	
Tenant revenue	\$ 422,995
Program grants-subsidies	329,815
Other revenues	<u>27,247</u>
 TOTAL OPERATING REVENUES	 <u>780,057</u>
OPERATING EXPENSES:	
Administration	109,888
Tenant services	107,058
Utilities	108,539
Maintenance	313,222
Protective services	23,878
General	65,230
Other expenses	3,141
Depreciation	<u>217,714</u>
 TOTAL OPERATING EXPENSES	 <u>948,670</u>
 OPERATING (LOSS)	 <u>(168,613)</u>
NONOPERATING REVENUES AND (EXPENSES):	
Interest income	<u>11,291</u>
 (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS	 (157,322)
 Capital grant contributions	 <u>30,126</u>
 CHANGE IN NET ASSETS	 (127,196)
NET ASSETS, BEGINNING OF YEAR	<u>2,334,873</u>
 NET ASSETS, END OF YEAR	 <u>\$ 2,207,677</u>

The accompanying notes to financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 422,544
Cash received from grants and subsidies	329,819
Cash payments to suppliers for goods and services	(337,449)
Cash payments for wages and related benefits	(370,724)
Cash payments for payment in lieu of taxes	(24,900)
Other receipts	<u>27,247</u>
 NET CASH PROVIDED FROM OPERATING ACTIVITIES	 <u>46,537</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants	30,126
Acquisition of capital assets	<u>(46,054)</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(15,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from investments	(13,731)
Investment income	<u>14,175</u>
 NET CASH PROVIDED FROM INVESTING ACTIVITIES	 <u>444</u>
 NET INCREASE IN CASH AND EQUIVALENTS	 31,053
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>10,558</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 41,611</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (168,613)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	217,714
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(447)
Decrease (Increase) in prepaid expenses	(4,976)
Increase (Decrease) in accounts payable	(11,264)
Increase (Decrease) in accrued liabilities	<u>14,123</u>
 NET CASH PROVIDED FROM OPERATING ACTIVITIES	 <u>\$ 46,537</u>

The accompanying notes to financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

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

The Commission manages 180 units of low rent public housing units, of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Niles Housing Commission, but the Niles Housing Commission is a component unit of the City of Niles, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission’s business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission’s cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission’s policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 500
Checking accounts	7,280
Certificates of deposit	<u>33,831</u>
 TOTAL	 <u>\$ 41,611</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have a policy for deposit custodial credit risk. As of December 31, 2007, the Commission's cash and equivalents were not exposed to credit risk due to them being fully insured.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>
		<u>Less Than 1 Year</u>
Certificates of Deposit	<u>\$230,646</u>	<u>\$230,646</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of December 31, 2007, the Commission held investments in excess of F.D.I.C. insurance limits in the amount of \$51,721 which were uninsured and uncollateralized.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Fifth-Third Bank, Niles, MI	\$ 21,351
Huntington Bank, Niles, MI	24,650
Chemical Bank, Niles, MI	151,722
First Source Bank, Niles, MI	<u>32,923</u>
Total	<u>\$230,646</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets for the year ended December 31, 2007 is as follows:

	Balance 1-1-07	Additions	Deletions	Balance 12-31-07
Assets not subject to depreciation:				
Land	\$ 227,377	\$ -	\$ -	\$ 227,377
Construction in progress	-	38,025	(14,186)	23,839
Assets subject to depreciation:				
Building and improvements	5,585,798	23,429	-	5,609,227
Equipment	<u>508,991</u>	<u>7,986</u>	<u>(9,200)</u>	<u>507,777</u>
	6,322,166	<u>\$ 69,440</u>	<u>\$ (23,386)</u>	6,368,220
Accumulated depreciation	<u>(4,129,451)</u>	<u>\$(217,714)</u>	<u>\$ -</u>	<u>(4,347,165)</u>
Net capital assets	<u>\$2,192,715</u>			<u>\$2,021,055</u>

Depreciation expense for the year was \$217,714.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE D - RISK MANAGEMENT

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

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2007 totaled \$821,474 of which \$359,941 or 43.8% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G— PENSION PLAN

Plan Description & Funding Policy

The Commission participates in the City of Niles pension plan. The City has two contributory, single-employer defined benefit plans covering substantially all of its employees: Plan A and Plan B. Membership in Plan A is open to all full-time employees of the City (other than policeman, fireman, those employees earning less than an average of \$500 per year, the medical director and independent contractors) including full-time elected officials. Employees who retire at or after age 63 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.9% of average monthly compensation for each year of credited service. Employees are allowed to purchase up to 5 years of military time.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(Continued)

NOTE G – PENSION PLAN (Continued)

Average monthly compensation is equal to 1/36th of the earning of the employee during the best 3 consecutive years of the employee's final 10 years of employment with the City. Benefits fully vest upon reaching 10 years of credited service. Employees may retire early on or after age 55 with 10 years of credited service and receive reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan A are required to contribute 5.92% of their annual compensation to the Plan.

Annual Pension Cost

The City contributes to the Plans a percent of payroll calculated and recommended each year by the Plans' actuary. The Plans' contribution requirements for the plan year ended December 31, 2006 were \$569,078 (\$282,129 for Plan A and \$286,949 for Plan B) which consisted of \$185,426 from the City and \$383,652 from employees; these contributions represented approximately 3.1% and 6.4% of covered payroll, respectively.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 53,873	100%	\$ -
2006	66,950	100%	-
2007	27,364	100%	-

Schedule of Funding Progress

<u>Plan A</u>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) Entry Age (b)</u>	<u>Over-funded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (ab)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)c)</u>
1/1/2005	15,770,486	15,501,303	(269,183)	102%	4,463,365	-6.03%
1/1/2006	16,441,525	15,880,718	(560,807)	104%	4,209,900	-13.32%
1/1/2007	17,091,891	16,043,996	(1,047,895)	107%	4,467,659	-23.46%

NOTE H – SUBSEQUENT EVENTS

During the audit performed for fiscal year ended December 31, 2007, it was noted that subsequent to year end, the Commission's Executive Director was released. In addition, board minutes taken subsequent to year end were missing, or poorly reported. These events could have an impact on the audit report for fiscal year ended December 31, 2008.

**SUPPLEMENTAL
INFORMATION**

NILES HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 9,080	\$ -	\$ 9,080
114	Cash - Tenant security deposits	32,531	-	32,531
100	Total cash	41,611	-	41,611
Accounts and notes receivables:				
126	Accounts receivable- tenants	4,843	-	4,843
126.1	Allowance for doubtful accounts - tenants	(971)	-	(971)
129	Accrued interest receivable	472	-	472
120	Total receivables, net of allowances for doubtful accounts	4,344	-	4,344
Other current assets:				
131	Investments	230,646	-	230,646
142	Prepaid expenses	18,409	-	18,409
150	TOTAL CURRENT ASSETS	295,010	-	295,010
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	212,091	15,286	227,377
162	Buildings	5,315,839	44,093	5,359,932
163	Furniture, equipment & machinery - dwellings	210,837	10,946	221,783
164	Furniture, equipment & machinery - administration	273,327	12,667	285,994
165	Leasehold improvements	246,335	2,960	249,295
166	Accumulated depreciation	(4,333,068)	(14,097)	(4,347,165)
167	Construction in progress	-	23,839	23,839
160	Total fixed assets, net of accumulated depreciation	1,925,361	95,694	2,021,055
180	TOTAL NONCURRENT ASSETS	1,925,361	95,694	2,021,055
190	TOTAL ASSETS	\$ 2,220,371	\$ 95,694	\$ 2,316,065

See accompanying notes to financial statements.

NILES HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 17,526	\$ -	\$ 17,526
321	Accrued wages/payroll taxes payable	6,914	-	6,914
322	Accrued compensated absences - current portion	7,333	-	7,333
333	Accounts payable - other government	24,900	-	24,900
341	Tenant security deposits	32,531	-	32,531
342	Deferred revenues	3,405	-	3,405
310	TOTAL CURRENT LIABILITIES	<u>92,609</u>	<u>-</u>	<u>92,609</u>
354	Accrued compensated absences - noncurrent	<u>15,779</u>	<u>-</u>	<u>15,779</u>
350	TOTAL NONCURRENT LIABILITIES	<u>15,779</u>	<u>-</u>	<u>15,779</u>
300	TOTAL LIABILITIES	<u>108,388</u>	<u>-</u>	<u>108,388</u>
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	1,925,361	95,694	2,021,055
512.1	Unrestricted net assets	<u>186,622</u>	<u>-</u>	<u>186,622</u>
513	TOTAL NET ASSETS	<u>2,111,983</u>	<u>95,694</u>	<u>2,207,677</u>
600	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,220,371</u>	<u>\$ 95,694</u>	<u>\$ 2,316,065</u>

See accompanying notes to financial statements.

NILES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 419,619	\$ -	\$ 419,619
704	Tenant revenue - other	3,376	-	3,376
705	Total tenant revenue	422,995	-	422,995
706	HUD PHA grants	240,349	89,466	329,815
706.1	Capital grants	-	30,126	30,126
711	Investment income - unrestricted	11,291	-	11,291
714	Fraud recovery	27,247	-	27,247
700	TOTAL REVENUE	701,882	119,592	821,474
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	48,818	4,000	52,818
912	Auditing fees	3,800	-	3,800
914	Compensated absences	2,599	-	2,599
915	Employee benefit contributions- administrative	9,088	306	9,394
916	Other operating- administrative	40,977	300	41,277
	Total Administrative	105,282	4,606	109,888
Tenant services:				
921	Tenant services - salaries	61,526	4,622	66,148
923	Employee benefit contributions - tenant services	32,739	345	33,084
924	Tenant services - other	7,826	-	7,826
	Total Tenant Services	102,091	4,967	107,058
Utilities:				
931	Water	19,045	-	19,045
932	Electricity	43,039	-	43,039
933	Gas	46,455	-	46,455
	Total Utilities	108,539	-	108,539

See accompanying notes to financial statements.

NILES HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
Maintenance:				
941	Ordinary maintenance and operations - labor	134,905	12,686	147,591
942	Ordinary maintenance and operations - materials & other	48,712	2,180	50,892
943	Ordinary maintenance and operations - contract costs	66,643	6,612	73,255
945	Employee benefit contributions- ordinary maintenance	40,522	962	41,484
	Total Maintenance	<u>290,782</u>	<u>22,440</u>	<u>313,222</u>
Protective services:				
951	Protective services - labor	17,537	1,001	18,538
952	Protective services - other contract costs	3,522	-	3,522
955	Employee benefit contributions - protective services	1,741	77	1,818
	Total Protective Services	<u>22,800</u>	<u>1,078</u>	<u>23,878</u>
General expenses:				
961	Insurance premiums	35,671	-	35,671
963	Payments in lieu of taxes	24,900	-	24,900
964	Bad debts - tenant rents	4,659	-	4,659
	Total General Expenses	<u>65,230</u>	<u>-</u>	<u>65,230</u>
969	TOTAL OPERATING EXPENSES	<u>694,724</u>	<u>33,091</u>	<u>727,815</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>7,158</u>	<u>86,501</u>	<u>93,659</u>
971	Extraordinary maintenance	3,141	-	3,141
974	Depreciation expense	208,601	9,113	217,714
900	TOTAL EXPENSES	<u>906,466</u>	<u>42,204</u>	<u>948,670</u>
Other financing sources (uses)				
1001	Operating transfers in	56,375	-	56,375
1002	Operating transfers out	-	(56,375)	(56,375)
1010	Total other financing sources (uses)	<u>56,375</u>	<u>(56,375)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (148,209)</u>	<u>\$ 21,013</u>	<u>\$ (127,196)</u>

See accompanying notes to financial statements.

NILES HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended December 31, 2007

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
MEMO account information				
1103	Beginning equity	\$ 2,074,348	\$ 260,525	\$ 2,334,873
1104	Prior Period Adjustments, Equity Transfers	\$ 185,844	\$ (185,844)	\$ -
1120	Unit months available	2,160	-	2,160
1121	Number of unit months leased	1,903	-	1,903

See accompanying notes to financial statements.

**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
Niles Housing Commission
Niles, Michigan

We have audited the financial statements of Niles Housing Commission as of and for the year ended December 31, 2007, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Niles Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Niles Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Niles Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2007-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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 grants, 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 that are required to be reported under *Government Auditing Standards* which are reported in the Schedule of Findings and Responses as items 2007-2 through 2007-4.

**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***

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 19, 2008

NILES HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

COMPLIANCE AND OTHER MATTERS

Finding 2007-1

Reportable Condition:

During the audit it was noted that the Commission does not have documented internal control policies and procedures

Criteria:

24 CFR 85.20 requires the Commission to have effective internal controls and accountability must be maintained for all funds. The Commission must adequately safeguard all assets and must assure that it is used solely for authorized purposes.

Condition:

The Commission did not have adequate documentation of internal control policies and procedures.

Questioned Costs:

None

Effect:

With adequate documentation of effective internal control policies and procedures, assets can be adequately safeguarded by all employees in accordance with applicable laws and regulations.

Cause:

Lack of documentation of internal control policies and procedures.

Recommendation:

The Commission should adopt documented internal control policies and procedures.

Management's Response:

Management agrees and will implement documentation of its internal control policies and procedures.

Finding 2007-2

Reportable Condition:

During the audit it was noted that third party support for income verification was not present in some tenant files for initial examinations.

Criteria:

24 CFR Part 960.259 requires the Commission to obtain and document in the tenant file, third party verification of reported family annual income, value of assets, and expenses related to deductions from annual income for each tenant admission and annual reexamination, or other change of unit for a family.

NILES HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

(continued)

Condition:

The Commission did not have policies and procedures ensuring Form 50058 for initial certifications to be printed and placed in tenant files.

Questioned Costs:

None

Effect:

Third party documentation of income and expenses was not present in tenant files for initial certification.

Cause:

Incorrect policies and procedures over initial tenant certification.

Recommendation:

The Commission should adopt policies and procedures that would require third party documentation of income and expenses for initial certifications to be kept in the tenant file to ensure compliance with requirements.

Management's Response:

Management agrees and will implement policies to ensure that third party documentation of income and expenses for initial certifications is to be performed and placed in tenant files.

Finding 2007-3

Reportable Condition:

During the audit it was noted that the Commission had a depository agreement signed with one financial institution but the funds in excess of \$100,000 were not fully collateralized.

Criteria:

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000.

Condition:

Although the Commission had depository agreements signed with its financial institutions, it did not follow-up with them to verify that they had those funds in excess of \$100,000 fully insured. The Commission also did not have policies and procedures in place to monitor cash and investments continuously to verify that the collateral proved by the financial institutions was adequate throughout the year.

Questioned Costs:

None

Effect:

The Commission is not in compliance with the ACC contract.

NILES HOUSING COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

(continued)

Cause:

Lack of policies and procedures over depository agreements with regards to collateralization of underinsured accounts.

Recommendation:

The Commission should require its financial institutions to provided documentation of collateral at a minimum on a quarterly basis. The Commission should also adopt policies and procedures to monitor its cash and investments continuously to verify that the collateral provided by the financial institutions is adequate throughout the year.

Management's Response:

Management agrees and will implement policies and procedures to monitor cash and investment balances on a continuous basis and to require all of its financial institutions with whom funds are over \$100,000 to provide adequate collateral.

Finding 2007-4

Reportable Condition:

During the audit it was noted that Form 50058 for initial examinations was not present in some tenant files.

Criteria:

24 CFR Part 990 requires the Commission to submit Form 50058 electronically to HUD for each tenant admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family.

Condition:

The Commission did not have policies and procedures ensuring Form 50058 for initial certifications to be printed and placed in tenant files.

Questioned Costs:

None

Effect:

Form 50058 for initial certifications were not printed and included in the tenant files.

Cause:

Incorrect policies and procedures over Form 50058 for initial certifications.

Recommendation:

The Commission should adopt policies and procedures that would require Form 50058 for initial certifications to be printed and kept in the tenant file to ensure compliance with requirements.

Management's Response:

Management agrees that Form 50058 for initial certifications were not printed and placed in tenant files, and will implement policies to ensure a printed Form 50058 for each initial certification is placed in the tenant file.