# MANISTIQUE HOUSING COMMISSION

## REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2007

**MANISTIQUE HOUSING COMMISSION**

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
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Private Companies Practice Section
American Institute of Certified
Public Accountants

# INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Manistique Housing Commission
Manistique, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Manistique 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 Manistique 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 September 16, 2008 on our consideration of the Manistique 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.

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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 Manistique 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 & Co. PLC

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

September 16, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Manistique 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 $1,013,880 for the year ended December 31, 2007 compared to $1,029,327 for the year ended December 31, 2006.

- The Commission's operating revenues totaled $503,719 for the year ended December 31, 2007 and $462,048 for the year ended December 31, 2006, while operating expenses totaled $593,358 for the year ended December 31, 2007 and $605,540 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 $(15,447) from the year ended December 31, 2006.

**Table 1**

**NET ASSETS**

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Assets** | | |
| Current assets | $ 455,851 | $ 409,190 |
| Capital assets (net) | 615,343 | 676,529 |
| Total assets | 1,071,194 | 1,085,719 |
| **Liabilities** | | |
| Current liabilities | 45,224 | 44,946 |
| Noncurrent liabilities | 12,090 | 11,446 |
| Total liabilities | 57,314 | 56,392 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 615,343 | 676,529 |
| Restricted | 48,347 | - |
| Unrestricted | 350,190 | 352,798 |
| **Net Assets** | $ 1,013,880 | $ 1,029,327 |

Net assets of the Commission stood at $1,013,880 for the year ended December 31, 2007 compared to $1,029,327 for the year ended December 31, 2006. Restricted net assets were $48,348 for the year ended December 31, 2007 compared to $0 for the year ended December 31, 2006. Unrestricted net business assets were $350,190 for the year ended December 31, 2007 compared to $352,798 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 $22,712 increase in cash, a $13,198 increase in prepaid expenses, and a $10,183 increase in investments. The increase in current liabilities was largely due to a $1,054 decrease in accounts payable and a $1,332 increase in accrued liabilities.

**Table 2**

**CHANGE IN NET ASSETS**

| | Year Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Revenues:** | | |
| Program revenues: | | |
| Charges for services | $ 150,912 | $ 140,334 |
| Program grants and subsidies | 388,074 | 314,898 |
| General revenues: | | |
| Other revenues | 24,104 | 20,926 |
| Unrestricted investment earnings | 14,821 | 12,529 |
| Total revenues | 577,911 | 488,687 |
| **Program Expenses:** | | |
| Operating expenses | 593,358 | 605,540 |
| Change in net assets | (15,447) | (116,853) |
| **Net assets - beginning of period** | 1,029,327 | 1,146,180 |
| **Net assets - end of period** | $ 1,013,880 | $ 1,029,327 |

**BUSINESS – TYPE ACTIVITIES**

Revenues for the Commission totaled $577,911 for the year ended December 31, 2007 compared to $488,687 for the year ended December 31, 2006. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased 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 largely due to a $8,252 decrease in administrative expenses, a $3,726 decrease in general expenses, a $6,070 increase in maintenance expenses, and a $17,081 increase in depreciation expense.

## CAPTIAL ASSETS

### Capital Assets

The Commission had $3,452,711 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2007 compared to $3,407,003 for the year ended December 31, 2006.

**Table 3**

**CAPITAL ASSETS**
**Business - Type Activity**

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Land | $ 11,805 | $ 11,805 |
| Land and improvements | 256,224 | 256,224 |
| Building and improvements | 3,052,472 | 3,022,421 |
| Equipment | 132,210 | 116,553 |
| Total | 3,452,711 | 3,407,003 |
| Less accumulated depreciation | (2,837,368) | (2,730,474) |
| **NET CAPITAL ASSETS** | $ 615,343 | $ 676,529 |

The Commission invested $62,809 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 Executive Director, Kathleen Schuetter, at 400 East Lake Shore Drive, Manistique, Michigan 49854, or call 906-341-5451.

# MANISTIQUE HOUSING COMMISSION

## STATEMENT OF NET ASSETS
**Proprietary Fund**

December 31, 2007

| | |
|---|---|
| CURRENT ASSETS: | |
| Cash and equivalents | $ 155,680 |
| Restricted cash and equivalents | 48,347 |
| Accounts receivable | 7,753 |
| Investments | 215,733 |
| Prepaid expenses | 28,338 |
| TOTAL CURRENT ASSETS | 455,851 |
| NONCURRENT ASSETS | |
| Capital assets | 3,452,711 |
| Less accumulated depreciation | (2,837,368) |
| NET CAPITAL ASSETS | 615,343 |
| TOTAL ASSETS | 1,071,194 |
| CURRENT LIABILITIES: | |
| Accounts payable | 8,851 |
| Accrued liabilities | 36,373 |
| TOTAL CURRENT LIABILITIES | 45,224 |
| NONCURRENT LIABILITIES | 12,090 |
| TOTAL LIABILITIES | 57,314 |
| NET ASSETS: | |
| Investment in capital assets, net of related debt | 615,343 |
| Restricted net assets | 48,347 |
| Unrestricted net assets | 350,190 |
| NET ASSETS | $ 1,013,880 |

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



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## MANISTIQUE HOUSING COMMISSION

### STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

| | | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|---|---|---|
| FUNCTIONS/PROGRAMS | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Business-Type Activities |
| BUSINESS-TYPE ACTIVITIES: | | | | | |
| Public Housing | $ 593,358 | $ 150,912 | $ 331,702 | $ 56,372 | $ (54,372) |
| General revenues: | | | | | |
| Unrestricted investment earnings | | | | | 14,821 |
| Other | | | | | 24,104 |
| Total general revenues | | | | | 38,925 |
| Change in net assets | | | | | (15,447) |
| NET ASSETS, beginning of year | | | | | 1,029,327 |
| NET ASSETS, end of year | | | | | $ 1,013,880 |

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

## MANISTIQUE HOUSING COMMISSION

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

For the Year Ended December 31, 2007

| | |
|---|---|
| OPERATING REVENUES: | |
| Tenant revenue | $ 150,912 |
| Program grants-subsidies | 330,925 |
| Other income | 21,882 |
| TOTAL OPERATING REVENUES | 503,719 |
| OPERATING EXPENSES: | |
| Administration | 140,426 |
| Tenant services | 342 |
| Utilities | 49,151 |
| Maintenance | 99,115 |
| General | 23,910 |
| Housing assistance payments | 152,846 |
| Other expenses | 3,573 |
| Depreciation | 123,995 |
| TOTAL OPERATING EXPENSES | 593,358 |
| OPERATING (LOSS) | (89,639) |
| NONOPERATING REVENUES AND (EXPENSES): | |
| Capital grants | 56,372 |
| Interest income | 15,598 |
| Gain on sale of capital asset | 2,222 |
| TOTAL NONOPERATING REVENUES AND (EXPENSES) | 74,192 |
| CHANGE IN NET ASSETS | (15,447) |
| NET ASSETS, BEGINNING OF YEAR | 1,029,327 |
| NET ASSETS, END OF YEAR | $ 1,013,880 |

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



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## MANISTIQUE HOUSING COMMISSION

### STATEMENT OF CASH FLOWS
**Proprietary Fund**

For the Year Ended December 31, 2007

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from customers | $ 147,599 |
| Cash received from grants and subsidies | 330,925 |
| Cash payments to suppliers for goods and services | (250,072) |
| Cash payments for wages and related benefits | (222,470) |
| Cash payments for payment in lieu of taxes | (9,097) |
| Other receipts | 21,827 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 18,712 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Capital grants | 59,470 |
| Acquisition of capital assets | (62,809) |
| Gross proceeds from sale of capital assets | 2,222 |
| NET CASH (USED) FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (1,117) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of investments | (10,183) |
| Investment income | 15,300 |
| NET CASH PROVIDED FROM INVESTING ACTIVITIES | 5,117 |
| NET INCREASE IN CASH AND EQUIVALENTS | 22,712 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | 181,315 |
| CASH AND EQUIVALENTS, END OF YEAR | $ 204,027 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income (loss) | $ (89,639) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 123,995 |
| Changes in assets and liabilities: | |
| Decrease (Increase) in receivables | (3,368) |
| Decrease (Increase) in prepaid expenses | (13,198) |
| Increase (Decrease) in accounts payable | (1,054) |
| Increase (Decrease) in accrued liabilities | 1,976 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 18,712 |

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



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## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### THE REPORTING ENTITY

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

The Commission manages 60 units of low rent public housing units and 59 housing choice vouchers 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 Manistique Housing Commission, but the Manistique Housing Commission is a component unit of the City of Manistique, 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.

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## 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.

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## 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 $200 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.
2. Restricted net assets – Consists of Housing Assistance Payments (HAP) received from HUD in excess of payments paid to landlords. These excess funds can only be used for future HAP to landlords.



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## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ASSETS, LIABILITIES AND NET ASSETS (Continued)

3. 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.

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## 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 | $ 200 |
| Checking accounts | 72,422 |
| Savings accounts | 131,405 |
| TOTAL | $ 204,027 |

*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:

| | | (Investment Maturities in Years) |
|---|---|---|
| Investment Type | Fair Value | Less Than 1 Year |
| Certificates of Deposit | $215,733 | $215,733 |

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's investments were not exposed to credit risk, due to them being fully insured.

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## 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:

| | |
|---|---|
| mBank, Manistique, MI | $ 57,377 |
| State Savings Bank, Manistique, MI | 33,578 |
| Manistique Credit Union, Manistique, MI | 62,174 |
| Limestone Bank, Manistique, MI | 62,604 |
| Total | $215,733 |

## 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 |
|---|---|---|---|---|
| Land | $ 11,805 | $ - | $ - | $ 11,805 |
| Land and improvements | 256,224 | - | - | 256,224 |
| Building and improvements | 3,022,421 | 30,051 | - | 3,052,472 |
| Equipment | 116,553 | 32,758 | (17,101) | 132,210 |
| | 3,407,003 | $ 62,809 | $ (17,101) | 3,452,711 |
| Accumulated depreciation | (2,730,474) | $ (123,995) | $ 17,101 | (2,837,368) |
| Net capital assets | $ 676,529 | | | $ 615,343 |

Depreciation expense for the year was $123,995.



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## 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 $577,911 of which $388,074 or 67.2% 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

The Commission has established a SEP-IRA plan of which the Commission contributes 10% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to $11,658.

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# SUPPLEMENTAL INFORMATION

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# MANISTIQUE HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE
**Proprietary Fund**

December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | ASSETS | | | | |
| | CURRENT ASSETS: | | | | |
| | Cash: | | | | |
| 111 | Cash - unrestricted | $ 132,224 | $ 13,020 | $ - | $ 145,244 |
| 113 | Cash - other restricted | - | 48,347 | - | 48,347 |
| 114 | Cash - tenant security deposits | 10,436 | - | - | 10,436 |
| 100 | Total cash | 142,660 | 61,367 | - | 204,027 |
| | Accounts and notes receivables: | | | | |
| 122 | Accounts receivable-HUD other projects | - | - | 19 | 19 |
| 125 | Accounts receivable - miscellaneous | 55 | - | - | 55 |
| 126 | Accounts receivable- tenants | 4,970 | - | - | 4,970 |
| 126.1 | Allowance for doubtful accounts - tenants | (464) | - | - | (464) |
| 129 | Accrued interest receivable | 3,173 | - | - | 3,173 |
| 120 | Total receivables, net of allowances for doubtful accounts | 7,734 | - | 19 | 7,753 |
| | Other current assets: | | | | |
| 131 | Investments | 215,733 | - | - | 215,733 |
| 142 | Prepaid expenses | 28,338 | - | - | 28,338 |
| 144 | Interprogram due from | 632 | - | - | 632 |
| 150 | TOTAL CURRENT ASSETS | 395,097 | 61,367 | 19 | 456,483 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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# MANISTIQUE HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE
**Proprietary Fund**

December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | NONCURRENT ASSETS: | | | | |
| | Fixed assets: | | | | |
| 161 | Land | 11,805 | - | - | 11,805 |
| 162 | Buildings | 3,027,154 | - | 25,318 | 3,052,472 |
| 163 | Furniture, equipment & machinery - dwellings | 22,816 | - | 12,410 | 35,226 |
| 164 | Furniture, equipment & machinery - administration | 57,305 | 8,625 | 31,054 | 96,984 |
| 165 | Leasehold improvements | 256,224 | - | - | 256,224 |
| 166 | Accumulated depreciation | (2,826,082) | (6,347) | (4,939) | (2,837,368) |
| 160 | Total fixed assets, net of accumulated depreciation | 549,222 | 2,278 | 63,843 | 615,343 |
| 180 | TOTAL NONCURRENT ASSETS | 549,222 | 2,278 | 63,843 | 615,343 |
| 190 | TOTAL ASSETS | $ 944,319 | $ 63,645 | $ 63,862 | $ 1,071,826 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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# MANISTIQUE HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE
**Proprietary Fund**

December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | LIABILITIES AND NET ASSETS | | | | |
| | LIABILITIES: | | | | |
| | CURRENT LIABILITIES | | | | |
| 312 | Accounts payable ≤ 90 days | $ 8,455 | $ 396 | $ - | $ 8,851 |
| 321 | Accrued wages / payroll taxes | 2,753 | - | - | 2,753 |
| 322 | Accrued compensated absences - current portion | 7,712 | 826 | - | 8,538 |
| 333 | Accounts payable - other government | 9,097 | - | - | 9,097 |
| 341 | Tenant security deposits | 13,609 | - | - | 13,609 |
| 342 | Deferred revenues | 2,376 | - | - | 2,376 |
| 347 | Interprogram due from | - | 613 | 19 | 632 |
| 310 | TOTAL CURRENT LIABILITIES | 44,002 | 1,835 | 19 | 45,856 |
| 354 | Accrued compensated absences - non current | 10,898 | 1,192 | - | 12,090 |
| 350 | TOTAL NONCURRENT LIABILITIES | 10,898 | 1,192 | - | 12,090 |
| 300 | TOTAL LIABILITIES | 54,900 | 3,027 | 19 | 57,946 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS

# MANISTIQUE HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE
**Proprietary Fund**

December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | NET ASSETS | | | | |
| 508.1 | Investment in capital assets, net of related debt | 549,222 | 2,278 | 63,843 | 615,343 |
| 511.1 | Restricted net assets | - | 48,347 | - | 48,347 |
| 512.1 | Unrestricted net assets | 340,197 | 9,993 | - | 350,190 |
| 513 | TOTAL NET ASSETS | 889,419 | 60,618 | 63,843 | 1,013,880 |
| 600 | TOTAL LIABILITIES AND NET ASSETS | $ 944,319 | $ 63,645 | $ 63,862 | $ 1,071,826 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS

# MANISTIQUE HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE
### Proprietary Fund

For the Year Ended December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | REVENUES | | | | |
| 703 | Net tenant rental revenue | 150,912 | - | - | 150,912 |
| 705 | Total tenant revenue | 150,912 | - | - | 150,912 |
| 706 | HUD PHA grants | 107,744 | 196,366 | 26,815 | 330,925 |
| 706.1 | Capital grants | - | - | 56,372 | 56,372 |
| 711 | Investment income - unrestricted | 14,311 | 510 | - | 14,821 |
| 714 | Fraud recovery | - | 1,850 | - | 1,850 |
| 715 | Other revenue | 20,032 | - | - | 20,032 |
| 716 | Gain/loss on sale of fixed assets | 2,222 | - | - | 2,222 |
| 720 | Investment income - restricted | - | 777 | - | 777 |
| 700 | TOTAL REVENUE | 295,221 | 199,503 | 83,187 | 577,911 |
| | EXPENSES | | | | |
| | Administrative: | | | | |
| 911 | Administrative salaries | 62,523 | 13,807 | 9,594 | 85,924 |
| 912 | Auditing fees | 3,040 | 360 | - | 3,400 |
| 914 | Compensated absences | 6,839 | (176) | - | 6,663 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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## MANISTIQUE HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE
**Proprietary Fund**

For the Year Ended December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| 915 | Employee benefit contributions- administrative | 21,718 | 4,213 | 304 | 26,235 |
| 916 | Other operating- administrative | 14,045 | 4,140 | 19 | 18,204 |
| | Total Administrative | 108,165 | 22,344 | 9,917 | 140,426 |
| | Tenant services: | | | | |
| 924 | Tenant services - other | 342 | - | - | 342 |
| | Utilities: | | | | |
| 931 | Water | 27,922 | - | - | 27,922 |
| 932 | Electricity | 12,366 | - | - | 12,366 |
| 933 | Gas | 8,863 | - | - | 8,863 |
| | Total Utilities | 49,151 | - | - | 49,151 |
| | Maintenance: | | | | |
| 941 | Ordinary maintenance and operations - labor | 46,087 | - | - | 46,087 |
| 942 | Ordinary maintenance and operations - materials & other | 9,112 | - | - | 9,112 |
| 943 | Ordinary maintenance and operations - contract costs | 25,135 | - | - | 25,135 |
| 945 | Employee benefit contributions- ordinary maintenance | 18,781 | - | - | 18,781 |
| | Total Maintenance | 99,115 | - | - | 99,115 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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## MANISTIQUE HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE
**Proprietary Fund**

For the Year Ended December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | General expenses: | | | | |
| 961 | Insurance premiums | 14,358 | - | - | 14,358 |
| 962 | Other general expenses | 290 | - | - | 290 |
| 963 | Payments in lieu of taxes | 9,097 | - | - | 9,097 |
| 964 | Bad debts - tenant rents | 165 | - | - | 165 |
| | Total General Expenses | 23,910 | - | - | 23,910 |
| 969 | TOTAL OPERATING EXPENSES | 280,683 | 22,344 | 9,917 | 312,944 |
| 970 | EXCESS OPERATING REVENUE OVER OPERATING EXPENSES | 14,538 | 177,159 | 73,270 | 264,967 |
| 971 | Extraordinary maintence | 3,573 | - | - | 3,573 |
| 973 | Housing assistance payments | - | 152,846 | - | 152,846 |
| 974 | Depreciation expense | 118,855 | 385 | 4,755 | 123,995 |
| 900 | TOTAL EXPENSES | 403,111 | 175,575 | 14,672 | 593,358 |

See accompanying notes to financial statements

ANDERSON, TACKMAN
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## MANISTIQUE HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE
**Proprietary Fund**

For the Year Ended December 31, 2007

| Line Item # | Account Description | Low Rent Public Housing | Housing Choice Vouchers | Public Housing Capital Fund Program | TOTAL |
|---|---|---|---|---|---|
| | Other financing sources (uses) | | | | |
| 1001 | Operating transfers in | 16,898 | - | - | 16,898 |
| 1002 | Operating transfers out | - | - | (16,898) | (16,898) |
| 1010 | Total other financing sources (uses) | 16,898 | - | (16,898) | - |
| 1000 | EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES | $ (90,992) | $ 23,928 | $ 51,617 | $ (15,447) |
| MEMO account information | | | | | |
| 1103 | Beginning equity | $ 980,411 | $ 36,690 | $ 12,226 | $ 1,029,327 |
| 1120 | Unit months available | 720 | 708 | - | 1,428 |
| 1121 | Number of unit months leased | 716 | 641 | - | 1,357 |
| 1117 | Administrative fee equity | $ - | $ 12,271 | $ - | $ 12,271 |
| 1118 | Housing assistance payments equity | $ - | $ 48,347 | $ - | $ 48,347 |

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
Manistique Housing Commission
Manistique, Michigan

We have audited the financial statements of Manistique Housing Commission as of and for the year ended December 31, 2007, and have issued our report thereon dated September 16, 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 Manistique 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 Manistique Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Manistique 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.

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 Manistique 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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 & Co. PLC

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

September 16, 2008

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS