

# Lake Linden Housing Commission

Lake Linden, Michigan

HUD PROJECT NOS. MI-104001/002

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2007

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# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* Lake Linden Housing Commission	County* HOUGHTON	Type* OTHER	MuniCode* 31-7-522
Opinion Date-Use Calendar* Aug 13, 2008	Audit Submitted-Use Calendar* Oct 16, 2008	Fiscal Year End Month*	Fiscal Year* 2007

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

- 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- 5. Did the local unit adopt a budget for all required funds?
- 6. Was a public hearing on the budget held in accordance with State statute?
- 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- 12. Is the local unit free of repeated reported deficiencies from previous years?
- 13. Is the audit opinion unqualified?      14. If not, what type of opinion is it? NA
- 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- 18. Are there reported deficiencies?       19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$ 308,852.00
General Fund Expenditure:	<input type="checkbox"/> \$ 393,542.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> \$ 2,097,230.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> \$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* David	Last Name* Heinsonen	Ten Digit License Number* 1101023766		
CPA Street Address* 56730 Calumet Avenue	City* Calumet	State* MI	Zip Code* 49913	Telephone* +1 (906) 337-2910
CPA Firm Name* David A Heinsonen, CPA, PC	Unit's Street Address* 210 Calumet Street	Unit's City* Lake Linden	Unit's Zip* 49945	

LAKE LINDEN HOUSING COMMISSION  
Lake Linden, Michigan

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December 31, 2007

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**Independent Auditor's Report**

Board of Commissioners  
Lake Linden, MI 49945

We have audited the accompanying general-purpose financial statements of the Lake Linden Housing Commission, HUD Project Nos. MI-104001/002 as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Lake Linden Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Lake Linden Housing Commission as of December 31, 2007, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with **Government Auditing Standards**, we have also issued a report dated August 13, 2008 on our consideration of the Lake Linden Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on Pages 4 through 7 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement. 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 taken as a whole. The Financial Data Schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of Lake Linden Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

*David A. Heinonen, CPA, PC*

Laurium, Michigan 49913  
August 13, 2008

**LAKE LINDEN HOUSING COMMISSION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**December 31, 2007**

Our discussion and analysis of the Lake Linden 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 8.

**FINANCIAL HIGHLIGHTS**

The Commission's net assets for the year are \$2,097,230, a decrease of 3.9% over the \$2,181,920 reported last year. The Commission had operating revenues of \$273,467, which is a decrease of 1.1% from the operating revenues last year of \$276,439. The Commission also had capital projects fund revenues of \$29,023 and \$184,359 respectively. The Commission's operating expenses for the year were \$393,542, an increase of 1.8%, over those last year of \$386,657. In addition depreciation expense was \$87,536 and \$85,459 respectively. The actual results of operations for the Commission were within the final budgetary overall amounts for both the current and previous years.

**USING THIS REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues Expenses and Changes in Net Assets (on pages 8 and 10) 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 8. 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 and the Statement of Revenues, Expenses, and Change in Net Assets 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 and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

Business-type activities—The Commission charges rent to tenants to help it 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 8. The financial statements provide detailed information on all of the Commission's activities. The Commission uses a proprietary fund 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.

**LAKE LINDEN HOUSING COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)  
December 31, 2007**

**THE COMMISSION AS A WHOLE**

The Commission's combined net assets at December 31, 2007 decreased \$81,730 from December 31, 2006.

**Table 1 - Net Assets**

<b>Assets</b>		<b>2007</b>	<b>2006</b>
Current and other assets	\$	186,849	\$ 257,598
Capital assets (net)		<u>1,951,855</u>	<u>1,960,064</u>
Total assets		2,138,704	2,217,662
<b>Liabilities</b>			
Current and other liabilities		41,474	35,742
Other liabilities		<u>0</u>	<u>0</u>
		41,474	35,742
<b>Net Assets</b>			
Investment in capital assets, net of related debt		1,951,855	1,960,064
Unrestricted net assets		<u>145,375</u>	<u>221,856</u>
<b>Net Assets</b>	<b>\$</b>	<b><u>2,097,230</u></b>	<b>\$ <u>2,181,920</u></b>

The Commission's total assets decreased from \$2,217,662, to \$2,138,704, primarily due to the construction of dormers and decks at the family homes in the amount of \$68,208, and the acquisition of carpeting, alarm systems, and equipment in the amount of \$11,118; net of depreciation expense of \$87,536. There was a decrease of \$70,749 in current assets; primarily in cash due to the single family home improvements, and the \$2,960 in the write-down in an uncollectible tenant receivable. The Commission's current and other liabilities increased from \$35,742, to \$41,474, or \$5,732, primarily due to increases in the accounts payable of \$6,194, and accrued utilities of \$1,801, and decreases in other liabilities of \$2,263. Net assets of the Commission stood at \$2,097,230, versus \$2,181,920 last year. Unrestricted net business assets were \$145,375 and \$221,856 last year. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2 - Changes in Net Assets**

		<b>2007</b>	<b>2006</b>
<b>Revenues</b>			
Program revenues: Charges for services	\$	166,871	\$ 172,886
Program grants and subsidies		135,619	287,912
General revenues:			
Other income		0	0
Unrestricted investment income		<u>6,364</u>	<u>4,419</u>
Total revenues		308,854	465,217
<b>Program Expenses</b>			
Operating expenses		393,542	386,657
Rounding		<u>2</u>	<u>0</u>
Total expenses		393,544	386,657
Increase in net assets		(84,690)	78,560
<b>Net assets - beginning of year</b>		<u>2,181,920</u>	<u>2,103,360</u>
<b>Net assets - end of year</b>	<b>\$</b>	<b><u>2,097,230</u></b>	<b>\$ <u>2,181,920</u></b>

**LAKE LINDEN HOUSING COMMISSION**  
**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**  
**December 31, 2007**

**BUSINESS-TYPE ACTIVITIES**

Total revenues for the Commission totaled \$308,854, and were \$456,217 last year. The Commission's average unit months leased on a monthly basis had increased slightly during the current year. In addition, HUD operating funds had decreased during the year. The 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.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2007, the Commission had \$3,590,025, last year it had \$3,512,444, invested in a variety of capital assets including land, equipment and buildings as follows:

**Table 3 - Capital Assets at December 31, 2007 Business -Type Activity**

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 296,355	\$ 296,355
Building and improvements	3,127,112	3,055,634
Equipment	166,558	160,455
Total Cost	<u>3,590,025</u>	<u>3,512,444</u>
Less: accumulated depreciation	<u>(1,638,170)</u>	<u>(1,552,380)</u>
<b>Net Capital Assets</b>	<b><u>\$ 1,951,855</u></b>	<b><u>\$ 1,960,064</u></b>

There was no activity with regard to acquisitions or disposals in the Land and improvements for 2007. The activity for 2007 in regard to Buildings and improvements included dormers and decks as well as purchasing carpeting, and engineering fees for the various apartments and buildings the Commission owns. In the area of Equipment, the acquisitions were essentially fire alarm systems, and a snow blower. The accumulated depreciation has increased by the amount of the depreciation expense for 2007 in the amount of \$87,536, less the asset disposed of \$1,746, or \$85,790. There was a snow blower acquired in 1989 retired in 2007.

**BUDGET COMPARATIVES, ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Table 4 discusses the variance between the final budget and the actual results for 2007 and 2006.

**Table 4 - Final Budget versus Actual Results - December 31, 2007 and 2006**

	<u>2007</u>	<u>2007</u>	<u>2007</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating subsidy - HUD	\$ 106,596	\$ 106,596	\$ 0
Program revenues	<u>161,280</u>	<u>173,235</u>	<u>11,955</u>
	267,876	279,831	11,955
Administration	\$ 120,630	\$ 115,608	\$ 5,022
Tenant Services	2,000	1,409	591
Utilities	77,740	75,171	2,569
Maintenance	87,540	88,724	(1,184)
General	28,350	25,094	3,256
Protective Services	<u>4,000</u>	<u>0</u>	<u>4,000</u>
	320,260	306,006	14,254

**LAKE LINDEN HOUSING COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)  
December 31, 2007**

**BUDGET COMPARATIVES, ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)**

	<u>2006</u> <u>Final Budget</u>	<u>2006</u> <u>Actual</u>	<u>2006</u> <u>Variance</u>
Operating subsidy - HUD	\$ 103,553	\$ 103,553	\$ 0
Program revenues	<u>153,280</u>	<u>177,305</u>	<u>24,025</u>
	256,833	280,858	24,025
Administration	\$ 110,150	\$ 106,486	\$ 3,664
Tenant Services	1,500	2,815	(1,315)
Utilities	69,330	74,584	(5,254)
Maintenance	84,700	91,819	(7,119)
General	27,570	25,494	2,076
Protective Services	<u>4,000</u>	<u>0</u>	<u>4,000</u>
	297,250	301,198	(3,948)

The relatively large favorable variance in program revenues of \$11,955 and \$24,025 in 2007, and 2006 respectively is primarily due to an overall increase in occupancy and the rise in the per room (unit) rental rates.

The favorable variance of \$14,254 in the 2007 expenses, and the unfavorable variance of \$3,948, in the 2006 expenses is due to certain items that were less than expected, offset by expense increases in other areas. The overall favorable/unfavorable variances for both years is relatively small, which shows the budget process is functional and the Commission has a realistic grasp on the financial environment in which it operates.

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2008 budget. 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 costs and expense issues. 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, please contact the Commission's Executive Director during regular business hours at (906) 296-0713.

**LAKE LINDEN HOUSING COMMISSION  
-PROPRIETARY FUND  
HUD PROJECT NO MI-104001/002  
STATEMENT OF NET ASSETS  
December 31, 2007**

**CURRENT ASSETS**

Cash and cash equivalents	\$	126,203
Accounts receivable - tenants (net)		0
Accounts receivable - HUD		36,725
Prepaid expenses		14,084
Tenant deposits held in trust		<u>9,837</u>

**Total Current Assets** 186,849

**NONCURRENT ASSETS**

Capital assets		3,590,025
Less accumulated depreciation		<u>(1,638,170)</u>

**Net Capital Assets** 1,951,855

**Total Noncurrent Assets** 1,951,855

**TOTAL ASSETS** \$ 2,138,704

**LIABILITIES**

Accounts payable	\$	8,413
Accrued liabilities		23,224
Tenant security deposits		<u>9,837</u>

**Total Current Liabilities** 41,474

**NET ASSETS**

Investment in capital assets, net of related debt		1,951,855
Unrestricted net assets		<u>145,375</u>

**NET ASSETS** \$ 2,097,230

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

LAKE LINDEN HOUSING COMMISSION  
 -PROPRIETARY FUND  
 HUD PROJECT NO MI-104001/002  
 STATEMENT OF ACTIVITIES  
 For the Year ended December 31, 2007

PROGRAMS	Expenses	Program Revenue			Net Revenue and Change in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities
BUSINESS-TYPE ACTIVITIES:					
Public Housing	\$ <u>393,542</u>	\$ <u>166,871</u>	\$ <u>106,596</u>	\$ <u>29,023</u>	\$ <u>(91,052)</u>

General Revenues:

Unrestricted investment earnings	\$ 6,364
Other (Rounding)	(2)
Total general revenues	<u>6,362</u>
Change in net assets	(84,690)
Net assets, beginning of year	<u>2,181,920</u>
Net assets, end of year	<u>\$ 2,097,230</u>

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

LAKE LINDEN HOUSING COMMISSION  
 -PROPRIETARY FUND  
 HUD PROJECT NO MI-104001/002  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 For the Year ended December 31, 2007

**OPERATING REVENUES**

Tenant Revenue	\$	166,871
Operating grants - subsidies		<u>106,596</u>
<b>Total Operating Revenues</b>	<b>\$</b>	<b>273,467</b>

**OPERATING EXPENSES**

Administrative	\$	115,608
Tenant Services		1,409
Utilities		75,171
Maintenance		88,724
General		25,094
Depreciation expense		<u>87,536</u>
<b>Total Operating Expenses</b>	<b>\$</b>	<b><u>393,542</u></b>

**OPERATING INCOME** \$ (120,075)

**NON-OPERATING INCOME**

Non-operating grants-subsidies	\$	29,023
Interest Income		6,364
Other (Rounding)		<u>(2)</u>
<b>Total Non-operating Income</b>	<b>\$</b>	<b><u>35,385</u></b>

**Change in Net Assets** \$ (84,690)

**NET ASSETS - BEGINNING OF YEAR** \$ 2,181,920

**NET ASSETS - END OF YEAR** \$ 2,097,230

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

**LAKE LINDEN HOUSING COMMISSION  
-PROPRIETARY FUND  
HUD PROJECT NO MI-104001/002  
STATEMENT OF CASH FLOWS  
For the Year ended December 31, 2007**

**CASH FLOWS USED BY OPERATING ACTIVITIES**

Cash received from customers	\$	166,871
Cash received from grants and subsidies		69,871
Cash payments to suppliers for goods and services		(144,551)
Cash payments for wages and related benefits		(147,485)
Payment in lieu of taxes		(8,022)
Other payments		-
<b>Net cash used by operating activities</b>	<b>\$</b>	<u><u>(63,316)</u></u>

**CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	\$	(79,327)
Capital funds projects grants		29,023
<b>Net cash used by capital and related financing activities</b>	<b>\$</b>	<u><u>(50,304)</u></u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	\$	6,364
Other (Rounding)		(2)
<b>Net cash from investing activities</b>	<b>\$</b>	<u><u>6,362</u></u>

**Net decrease in cash** \$ (107,258)

**CASH AND EQUIVALENTS - BEGINNING OF YEAR** \$ 233,461

**CASH AND EQUIVALENTS - END OF YEAR** \$ 126,203

**RECONCILIATION OF OPERATING INCOME TO NET**

**CASH USED BY OPERATING ACTIVITIES:**

Operating income	\$	(120,075)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		87,536
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable - tenants		0
Decrease (Increase) in accounts receivable - HUD		(36,725)
Decrease (Increase) in prepaids		(597)
Decrease (Increase) in tenant deposits held in trust		813
Increase (Decrease) in accounts payable		6,194
Increase (Decrease) in accrued liabilities		351
Increase (Decrease) in tenant security deposits		(813)
<b>Net cash used by operating activities</b>	<b>\$</b>	<u><u>(63,316)</u></u>

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

# LAKE LINDEN HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### THE REPORTING ENTITY

The Lake Linden Housing Commission (Commission), 210 Calumet Street, Lake Linden, Michigan, a non-profit organization, was formed in 1974 under the criteria established for low-income housing programs by the United States Department of Housing and Urban Development. The commission operates 66 units of low-income and senior housing, under a board of commissioners appointed by the Lake Linden Village Council. The Commission, for financial reporting purposes, includes all of the activities relevant to its rental 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 GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included 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 the Lake Linden Housing Commission was not a component unit of any other governmental unit.

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 has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which had substantially revised the financial statement presentation as described below.

#### Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets 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 and services.

**LAKE LINDEN 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 and the Statement of Revenues, Expenses, and Changes in Net Assets are presented using the economic resource measurement focus as defined below.

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

Basis of Accounting:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets 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.

**LAKE LINDEN HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES AND NET ASSETS**

Cash and Equivalents - The Commission's cash and 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.

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

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Due to and Due From Other Funds – Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which the transactions are executed.

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:

Building & improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$25 per item.

Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expense and a corresponding liability.

**LAKE LINDEN HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**(Continued)**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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. 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, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Inter-fund Activity:

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

The transfers of cash between the various Commission activities are reported separately from the revenues and expenses as operating transfer 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 activity.

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.

**LAKE LINDEN HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)**

**NOTE B – CASH AND INVESTMENTS**

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

**CASH AND EQUIVALENTS**

Cash and equivalents consisted of:

Petty cash	\$	100
Cash and equivalents		<u>126,103</u>
TOTAL		<u>\$ 126,203</u>

The bank balances were fully insured at December 31, 2007. Cash and equivalents are categorized as follow:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commissions name.

	Category			Market Value	Bank Balance
	<u>1</u>	<u>2</u>	<u>3</u>		
Petty cash	\$ 100	-	-	\$ 100	\$ -
Cash and equivalents	<u>126,103</u>	<u>-</u>	<u>-</u>	<u>126,103</u>	<u>131,248</u>
	<u>\$ 126,203</u>	<u>-</u>	<u>-</u>	<u>\$ 126,203</u>	<u>\$ 131,248</u>

**LAKE LINDEN HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)**

**NOTE B – CASH AND INVESTMENTS (Continued)**

**STATUTORY AUTHORITY**

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex. Sess.) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

**LAKE LINDEN HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007  
(Continued)**

**NOTE B – CASH AND INVESTMENTS (Continued)**

**INVESTMENTS**

Investments (if any) would be stated at market value.

Investments would normally consist of certificates of deposit and be in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission’s name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty’s trust dept.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust dept or agent but not in the Commission’s name.

There were no investments at December 31, 2007.

**NOTE C – PENSION PLAN**

The Lake Linden Housing Commission provides a Simplified Employee Pension Plan for Eligible employees. The terms of the plan call for contributions of 8% of each employees annual compensation. Pension expense totaled \$4,962 for the year ended December 31, 2007.

**NOTE D – FIXED ASSETS**

A summary of Capital assets as of December 31, 2007 is as follows:

	<u>Balance</u> <u>1/1/2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2007</u>
Land	\$ 296,355	\$ -	\$ -	\$ 296,355
Buildings	\$ 3,055,634	\$ 71,478	\$ -	\$ 3,127,112
Equipment	\$ 160,455	\$ 7,849	\$ (1,746)	\$ 166,558
	\$ 3,512,444	\$ 79,327	\$ (1,746)	\$ 3,590,025
Accumulated depreciation	\$ (1,552,380)	\$ (87,536)	\$ 1,746	\$ (1,638,170)
Net Fixed Assets	<u>\$ 1,960,064</u>	<u>\$ (8,209)</u>	<u>\$ 0</u>	<u>\$ 1,951,855</u>

Depreciation expense for the year was \$87,536.

## **LAKE LINDEN HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 (Continued)**

#### **NOTE E – COMPENSATED ABSENCES**

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the Commission accrues a liability for compensated absences which meet the following criteria:

1. The Commission's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Commission has calculated a liability for sick, personal and vacation leave which has been earned but not taken by Commission employees. The amount of \$882 is included in liabilities in accordance with FASB Statement 43.

#### **NOTE F – 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 G – 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 H – ECONOMIC DEPENDENCY**

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 program revenues for the year ended December 31, 2007 totaled \$302,490 of which \$135,619 or 44.8% was from HUD subsidies and grants.

## **SUPPLEMENTARY INFORMATION**

**LAKE LINDEN HOUSING COMMISSION**  
**-PROPRIETARY FUND**  
**HUD PROJECT NO MI-104001/002**  
**FINANCIAL DATA SCHEDULE**  
**December 31, 2007**

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
	Cash and cash equivalents			
1111.1	Cash - General Fund - Unrestricted	126,103	-	126,103
1117	Petty cash	100	-	100
111	Total Cash and Equivalents	126,203	-	126,203
122	Accounts receivable - Tenants	0	-	0
126	Accounts receivable - HUD	36,725	-	36,725
142	Miscellaneous prepaid expenses	14,084	-	14,084
114	Tenant deposits held in trust	9,837	-	9,837
150	Total Current Assets	186,849	-	186,849
<b>PROPERTY AND EQUIPMENT</b>				
161	Land	296,355	-	296,355
162	Building	3,127,112	-	3,127,112
163	Furniture, equipment, and machines-dwelling	125,517	-	125,517
164	Furniture, equipment, and machines-administrative	41,041	-	41,041
166	Total Fixed Assets	3,590,025	-	3,590,025
160	Accumulated depreciation - structures and equipment	(1,638,170)	-	(1,638,170)
	Net Fixed Assets	1,951,855	-	1,951,855
190		2,138,704	-	2,138,704
<b>LIABILITIES AND NET ASSETS</b>				
<b>312 CURRENT LIABILITIES</b>				
	Accounts payable - vendors and contractors	8,413	-	8,413
321	Accrued liabilities			
322	Payroll taxes	2,815	-	2,815
333	Deferred credits - other	882	-	882
345	Payments in lieu of taxes	7,727	-	7,727
341	Utilities and other	11,800	-	11,800
	Tenant Security Deposits	9,837	-	9,837
310	Total Current Liabilities	41,474	-	41,474
<b>508.1 EQUITY</b>				
512.1	Investment in capital assets, net of debt	1,951,855	-	1,951,855
513	Unrestricted net assets	145,375	-	145,375
600	Total Equity	2,097,230	-	2,097,230
		2,138,704	-	2,138,704

See notes to financial statements.

**LAKE LINDEN HOUSING COMMISSION**  
**-PROPRIETARY FUND**  
**HUD PROJECT NO MI-104001/002**  
**FINANCIAL DATA SCHEDULE**  
**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>
703	Dwelling rental	161,339	-	161,339
711	Investment income - unrestricted	6,364	-	6,364
706	Revenue HUD PHA Operating Grants	106,596	29,023	135,619
706.1	Revenue HUD PHA Capital Grants	-	-	-
716	Gain/(Loss) on sale of fixed assets	-	-	-
704	Tenant revenue - other	5,532	-	5,532
	Total Other Revenue	<u>112,128</u>	<u>29,023</u>	<u>141,151</u>
700	Total Revenue	<u>279,831</u>	<u>29,023</u>	<u>308,854</u>
<b>EXPENSES</b>				
911	Administrative Wages	72,552	-	72,552
916	Accounting fees	9,146	-	9,146
916	Sundry-other administrative expense	12,320	-	12,320
915	Employee Benefit Contribution	19,090	-	19,090
912	Auditing fee	2,500	-	2,500
	Total Administrative Expenses	<u>115,608</u>	-	<u>115,608</u>
924	Tenant services - other	1,409	-	1,409
932	Electricity	19,596	-	19,596
931	Water	17,447	-	17,447
933	Gas	38,128	-	38,128
	Total Utilities Expense	<u>75,171</u>	-	<u>75,171</u>
941	Labor	46,384	-	46,384
942	Materials and other	11,689	-	11,689
943	Contract costs	18,592	-	18,592
945	Employee Benefit Contribution	8,304	-	8,304
	Total Ordinary Maintenance Expenses	<u>84,969</u>	-	<u>84,969</u>
971	Extraordinary Maintenance	3,755	-	3,755
	Total Extraordinary Maintenance Expense	<u>3,755</u>	-	<u>3,755</u>

See notes to financial statements.

LAKE LINDEN HOUSING COMMISSION  
 -PROPRIETARY FUND  
 HUD PROJECT NO MI-104001/002  
 FINANCIAL DATA SCHEDULE  
 December 31, 2007

Line Item	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
963	Payments in lieu of taxes	7,727	-	7,727
961	Insurance	17,367	-	17,367
	Total General Expenses	25,094	-	25,094
969	Total Operating Expenses	306,006	-	306,006
970	Excess Operating Revenue	(26,175)	29,023	2,848
974	Depreciation expenses	87,536	-	87,536
900	Total Expenses	393,542	-	393,542
	Other Financing Sources (Uses)			
1001	Operating transfers in	29,023	-	29,023
1002	Operating transfers out	-	(29,023)	(29,023)
	Rounding	(2)	-	(2)
1010	Total Other Financing Sources (Uses)	29,021	-	(29,025)
1000	Excess of Total Revenue over Total Expenses	(84,690)	-	(84,690)

See notes to financial statements.

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**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  
Lake Linden, MI 49945

We have audited the financial statements of the Lake Linden Housing Commission, HUD Project Nos. MI-104001/002, as of and for the year ended December 31, 2007, and have issued our report thereon dated August 13, 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 Lake Linden 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 the Lake Linden Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Linden 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 a combination of control deficiencies, that adversely affects the Lake Linden Housing Commission'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 Lake Linden Housing Commission'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 Lake Linden Housing Commission's internal control.

Our consideration of the 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 weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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**  
(Continued)

**Compliance and Other Matters**

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

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

*David A. Heinonen CPA PC*

Laurium, Michigan 49913  
August 13, 2008

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# David A Heinonen CPA PC

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURE

Board of Commissioners  
Lake Linden Housing Commission  
Lake Linden, MI 49945

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

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

We were engaged to perform an audit of financial statements of the Lake Linden Housing Commission as of and for the year ended December 31, 2007, and have issued our reports thereon dated August 13, 2008. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated August 13, 2008, was expressed in relation to the basic financial statements of the Lake Linden Housing Commission taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Lake Linden Housing Commission. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Lake Linden Housing Commission and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

*David A. Heinonen CPA, PC*

Laurium, Michigan  
August 13, 2008

**Attachment to Independent Accountant's Report on Applying**

**Agreed-Upon Procedure**

<u>UFRS Rule Information</u>	<u>Hard Copy Document(s)</u>	<u>Findings</u>
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 Series)	Supplemental Schedules with Financial Statement Data	Agrees
Surplus Cash (S1300 series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S1300 series of accounts)	Notes to Financial Statements	Agrees
Type of Opinion on the Financial Statements and Compliance (account numbers S2100-020, S2300-020)	Auditor's Reports on the Financial Statements and Compliance	Agrees
Type of Opinion on Supplemental Data (account number S2100-100)	Auditor's Report on Supplemental Data	Agrees
Audit Findings Narrative (S2700 series of accounts)	Schedule of Findings and Questioned Costs	Agrees