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HOUSING AUTHORITY OF WELSH
REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
(UNAUDITED)
TWELVE MONTHS ENDED JUNE 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12-8-04

Mike Estes, P.C.
A Professional Accounting Corporation

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PUBLIC ACCOUNTANTS

Board of Commissioners
Housing Authority of Welsh
Welsh, Louisiana

We have compiled the accompanying financial statements of the business-type activities, each major fund, for the year ended June 30, 2004, which collectively comprise the Housing Authority of Welsh, Louisiana's basic financial statements as listed in the table of contents, and the accompanying supplementary information, which are presented for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplemental schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary information and, accordingly, do not express an opinion or any other form of assurance on them.

As described in Note 1 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. This results in a change in the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information, on pages two through seven, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

We have also performed agreed-upon procedures to test representations included in the Louisiana Attestation Questionnaire for the year-ended June 30, 2004, all included therein.

Mike Estes, P.C.
Fort Worth, Texas
November 30, 2004

HOUSING AUTHORITY OF THE CITY OF WELSH, LOUISIANA
REQUIRED SUPPLEMENTAL INFORMATION
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2004

Housing Authority of the City of Welsh, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

The management of the Housing Authority of Welsh, Louisiana presents the following discussion and analysis of the Housing Authority's financial activities for the fiscal year ending June 30, 2004. This represents an overview of financial information. Please read this discussion and analysis in conjunction with the Authority's unaudited financial statements, which follows.

FINANCIAL HIGHLIGHTS

- The Housing Authority's assets exceeded its liabilities by \$668,425 at the close of the fiscal year ended 2004.
 - ✓ Of this amount, \$171,624 of unrestricted assets may be used to meet the Housing Authority's ongoing obligations to citizens and creditors. This amount equals 121 percent, or equivalent to about 15 months, of the total operating expenses for the fiscal year 2004.
 - ✓ The remainder of \$496,801 represents a restriction equal to the net amount invested in land, building, furnishings, leasehold improvements, and equipment.
- The Housing Authority's total net assets increased by \$46,101, a 7% increase from the prior fiscal year 2003. This is attributable primarily to an increase in capital assets described in more detail below.
- The Housing Authority continues to operate without the need for debt borrowing during the current fiscal year. The primary source of funding for these activities continues to be HUD.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Housing Authority's basic financial statements. The Housing Authority is a special-purpose government engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (1) fund financial statements and (2) a series of notes to the financial statements. These provide information about the activities of the Housing Authority as a whole and present a longer-term view of the Housing Authority's finances. This report also contains other supplemental information in addition to the basic financial statements themselves demonstrating how projects funded by HUD have been completed.

Reporting on the Housing Authority as a Whole

One of the most important questions asked about the Authority's finances is, "Is the Housing Authority as a whole better off, or worse off, as a result of the achievements of fiscal year 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Housing Authority 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.

Fund Financial Statements

All of the funds of the Housing Authority are reported as proprietary funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Authority, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Housing Authority of the City of Welsh, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

The Housing Authority's financial statements report its net assets and changes in them. One can think of the Housing Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors, however, such as the changes in the Authority's occupancy levels or its legal obligations to HUD, to assess the overall health of the Housing Authority.

Reporting the Housing Authority's Most Significant Funds

The Housing Authority's unaudited financial statements provide detailed information about the most significant funds. Some funds are required to be established by the Department of Housing and Urban Development (HUD). However, the Housing Authority establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

The Housing Authority's enterprise funds use the following accounting approach for Proprietary funds: All of the Housing Authority's services are reported in enterprise funds. The focus of proprietary funds is on income measurement, which, together with the maintenance of net assets, is an important financial indicator.

FINANCIAL ANALYSIS

CONDENSED UNAUDITED FINANCIAL STATEMENTS (s)

Condensed Balance Sheet
As of June 30, 2004

ASSETS	
Current Assets	\$ 176,517
Restricted Assets	3,325
Capital Assets, Net of Depreciation	<u>496,799</u>
Total Assets	<u><u>676,641</u></u>
LIABILITIES	
Current Liabilities	<u>8,217</u>
NET ASSETS	
Invested in Capital Assets	496,799
Unrestricted	<u>171,625</u>
Total Net Assets	<u><u>668,424</u></u>
Total Liabilities and Net Assets	<u><u>676,641</u></u>

Housing Authority of the City of Welsh, Louisiana
 Management's Discussion and Analysis (MD&A)
 June 30, 2004

CONDENSED UNAUDITED FINANCIAL STATEMENTS (Continued)

**Condensed Statement of Revenues, Expenses,
 and Changes in Fund Net Assets
 Fiscal Year Ended June 30, 2004**

OPERATING REVENUES	
Rental Revenue	\$ 69,511
Other Revenue	<u>107</u>
Total Operating Revenues	<u>69,618</u>
 OPERATING EXPENSES	
Administration	32,955
Tenant Services	170
Utilities	21,587
Ordinary maintenance and operations	21,026
General	20,658
Depreciation	<u>44,955</u>
Total Operating Expenses	<u>141,351</u>
Income (Loss) from Operations	<u>(71,733)</u>
 NON-OPERATING REVENUES	
Federal Grants - Operating	72,929
Federal Grants - Capital	44,024
Interest Earnings and Other Revenue	<u>940</u>
Total Non-Operating Revenues	<u>117,893</u>
NET CHANGE IN ASSETS	46,160
NET ASSETS, Beginning of Year	<u>622,264</u>
NET ASSETS, End of Year	<u><u>668,424</u></u>

In future years, a comparative analysis of Authority-wide data with the prior year will be presented. (A comparative analysis for the current year is not required by accounting standards followed by the Authority.)

Compared with the prior fiscal year, total revenues decreased \$2,120, due to a 19% increase in funding from HUD for operations and capital projects. The Housing Authority was still in the process of completing projects funded from grants in HUD fiscal year 2002 and 2003.

Housing Authority of the City of Welsh, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

Compared with the prior fiscal year, total expenses decreased \$17,239, or by 11%, entirely due to an increase in depreciation expense. There was a 10% increase in administrative salaries offset by a similar decrease in utilities and ordinary maintenance costs.

Net Assets therefore increased \$46,161, or by 7%, due to the combined effect of the excess of revenues over expenses. This change caused an increase in assets of \$46,267 without any significant change in liabilities. Although capital improvements increased total assets by \$44,544, a decrease in assets from additional accumulated depreciation of \$44,953 offset this. Most of the change in assets therefore was reflected in an increase in unrestricted cash.

BUDGETARY ANALYSIS

The final operating budget approved by HUD for the Low Rent Public Housing for fiscal year ended June 30, 2004 had deficit of budgeted expenses exceeding budgeted revenues by \$16,555.

Low Rent Public Housing Program Budgetary Highlights

The original proposed budget of \$112,315 was approved without further revisions during fiscal year 2004. There were several significant variations between the final adopted annual budget and the actual income and expenses:

- Total revenues exceeded the budget of \$128,870 by \$11,388 due to receipt of capital funds from a 2002 fiscal year capital project during the current fiscal year which was not part of the 2004 budget.
- Ordinary maintenance and repairs expense and equipment replacements fell below the budget of \$28,300 by \$8,396 due to decreases in materials and contract labor used.
- Administrative expenses fell below the budget of \$36,020 by \$7,491 due to significant underspending in staff training, travel, and sundry expenses.
- Other budget items totaling \$47,995 were not significantly over- or underspent.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Housing Authority had \$1,960,533 invested in a broad range of assets, listed below, and construction in progress from projects funded in 2003. This amount, not including depreciation, represents a net increase of \$44,644, or 2%, from the prior year. More detailed information about capital assets appears in the notes to the financial statements.

Housing Authority of the City of Welsh, Louisiana
Management's Discussion and Analysis (MD&A)
June 30, 2004

**Capital Assets,
Net of Accumulated Depreciation
As of June 30, 2004**

Land	\$ 35,951
Buildings	393,877
Furniture and Equipment	5,503
Leasehold Improvements	16,152
Construction in Progress	<u>45,316</u>
Total	<u>496,799</u>

As of the end of the 2004 fiscal year, the Housing Authority is still in the process of completing HUD grants of \$142,661 obtained during the 2002 and 2003 fiscal years. A total remainder of \$74,832 will be received and spent for these projects during fiscal year 2005.

There have been no major capital projects planned or submitted to HUD for fiscal year 2005.

Debt

The Housing Authority has not incurred any mortgages, leases, or bond indentures for financing capital assets or operations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by Federal budget than by local economic conditions. There are no major changes expected in the fiscal year 2005 operating budget.

The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing properties including administrative fees involved in the modernization.

CONTACTING THE HOUSING AUTHORITY'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, investors, and creditors with a general overview of the Housing Authority's finances, and to show the Housing Authority's accountability for the money it receives. If you have questions about this report, or wish to request additional financial information, contact Pamela Fontenot, Executive Director, at the Housing Authority of the City of Welsh, Louisiana telephone number (337) 734-2647.

HOUSING AUTHORITY OF WELSH
ENTERPRISE FUNDS - BALANCE SHEET
YEAR ENDED JUNE 30, 2004

	General	Capital Fund Program	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 143,454	\$ 0	\$ 143,454
Investments	22,217	0	22,217
Interest receivable	65	0	65
Prepaid items and other assets	9,876	0	9,876
Inventory	905	0	905
Total Current Assets	176,517	0	176,517
Restricted Assets			
Cash	3,325	0	3,325
Capital Assets, net			
Land	35,951	0	35,951
Buildings, and equipment (net)	410,925	49,923	460,848
Total Capital Assets, net	446,876	49,923	496,799
Total Assets	626,718	49,923	676,641
LIABILITIES			
Current Liabilities			
Deferred revenue	100	0	100
Accrued PILOT	4,792	0	4,792
Total Current Liabilities	4,892	0	4,892
Current Liabilities - payable from Current Restricted Assets -			
Deposits due others	3,325	0	3,325
Total Liabilities	8,217	0	8,217
NET ASSETS			
Invested in capital assets, net of related debt	446,876	49,923	496,799
Unrestricted	171,625	0	171,625
Net Assets	618,501	49,923	668,424
Total Liabilities and Net Assets	626,718	49,923	676,641

See accompanying notes and accountants' report

**HOUSING AUTHORITY OF WELSH
ENTERPRISE FUNDS – STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2004**

	General	Capital Fund Program	Total
OPERATING REVENUES			
Dwelling rental	\$ 69,511	\$ 0	\$ 69,511
Other	107	0	107
Total Operating Revenues	69,618	0	69,618
OPERATING EXPENSES			
Administration	29,727	3,228	32,955
Tenant services	170	0	170
Utilities	21,587	0	21,587
Ordinary maintenance & operations	21,026	0	21,026
General expenses	20,658	0	20,658
Depreciation	44,637	318	44,955
Total Operating Expenses	137,805	3,546	141,351
Income (loss) from Operations	(68,187)	(3,546)	(71,733)
Non Operating Revenues (Expenses)			
Interest earnings	940	0	940
Federal grants	55,340	61,613	116,953
Total Non-Operating Revenues (Expenses)	56,280	61,613	117,893
Income (loss) before contribution and transfer	(11,907)	58,067	46,160
Operating transfers in	14,361	0	14,361
Operating transfers out	0	14,361	(14,361)
Income (loss) before contribution	2,454	43,706	46,160
Capital Contribution			
Transfers in	58,407	0	58,407
Transfers out	0	58,407	(58,407)
Change in net assets	60,861	(14,701)	46,160
Total net assets - beginning	557,640	64,624	622,264
Total net assets - ending	618,501	49,923	668,424

See accompanying notes and accountants' report

HOUSING AUTHORITY OF WELSH
 ENTERPRISE FUNDS – STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2004

	General	Capital Fund Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Rental receipts	69,511	0	69,511
Other receipts	213	0	213
Payments to vendors	(63,427)	(3,228)	(66,655)
Payments to employees – net	(30,029)	0	(30,029)
Net cash provided (used) by operating activities	(23,732)	(3,228)	(26,960)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in	14,361	0	14,361
Operating transfers out	0	(14,361)	(14,361)
Federal grants	60,694	17,589	78,283
Net cash provided (used) by non-capital financing activities	75,055	3,228	78,283
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(619)	(44,024)	(44,643)
Federal Capital Grants	0	44,024	44,024
Net cash (used) by capital and related financing activities	(619)	0	(619)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	890	0	890
Net cash provided (used) by interest income net of purchases of investment	890	0	890
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,594	0	51,594
CASH AND CASH EQUIVALENTS Beginning of Fiscal Year	117,403	0	117,403
CASH AND CASH EQUIVALENTS End of Fiscal Year	168,997	0	168,997

Continued

HOUSING AUTHORITY OF WELSH
 ENTERPRISE FUNDS – STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2004

	General	Capital Fund Program	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(68,187)	(3,546)	(71,733)
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	44,637	318	44,955
Change in assets and liabilities:			
Inventories	(96)	0	(96)
Prepaid items	(192)	0	(192)
Account payables	6	0	6
Deferred revenue	100	0	100
Net cash provided by operations	(23,732)	(3,228)	(26,960)
			Concluded

See accompanying notes and accountants' report

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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**HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The accompanying financial statements of the Housing Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY Housing Authorities are chartered as public corporations under the laws (LSA – R.S. 40.391) of the state of Louisiana for the purpose of providing safe and sanitary dwellings accommodations. This creation was contingent upon the local governing body of the city or parish declaring a need for the Housing Authority to function in such city or parish. The Housing Authority is governed by a five member Board of Commissioners. The members, appointed by the Honorable Mayor of Welsh, serve staggered multi-year terms.

The Housing Authority has the following units:

Program	Contract Number	Number Of Units
PHA owned housing	FW - 163	36

GASB Statement 14 establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Housing Authority is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement 14, fiscally independent means that the Housing Authority may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt with HUD approval.

The Housing Authority is a related organization of the City of Welsh since the City of Welsh appoints a voting majority of the Housing Authority’s governing board. The City of Welsh is not financially accountable for the Housing Authority as it cannot impose its will on the Housing Authority and there is no potential for the Housing Authority to provide financial benefit to, or impose financial burdens on, the City of Welsh. Accordingly, the Housing Authority is not a component unit of the financial reporting entity of the City of Welsh.

Governmental Accounting Standards Board (GASB) Codification Section 2100 establishes criteria for determining which, if any, component units should be considered part of the Housing Authority for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability, which includes:

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

1. Appointing a voting majority of an organization's governing body, and:
 - a. The ability of the Housing Authority to impose its will on that organization's body, and:
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Housing Authority.
2. Organizations for which the Housing Authority does not appoint a voting majority but are fiscally dependent on the Housing authority.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based on the previous criteria, the Housing Authority has determined that there are no component units that should be considered as part of the Housing Authority reporting entity

B. FUNDS The accounts of the Housing Authority are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

All funds of the Housing Authority are classified as proprietary. The general fund accounts for the transactions of the public housing Low Rent program. The Capital Funding program accounts for Capital Funding grants.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

New Accounting Standards Adopted During the year ended June 30, 2004, the Authority adopted three new statements of financial accounting standards issued by the Government Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.
- Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No.21 and 34*.
- Statement No. 38, *Certain Financial Statement Note Disclosures*.

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments including special purpose governments such as the Housing Authority of the City of Welsh. This new reporting model requires management to provide a narrative and analysis to the ordinary user called the Management's Discussion and Analysis (MD & A). This new reporting model also requires the financial statements to be presented on the entity as a whole (government-wide financial statements). The most significant changes to the financial statements are the format, classification of information and the classification of fund equity into various classes of net assets.

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

PROPRIETARY FUNDS Proprietary funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The Housing Authority has elected, pursuant to GASB Statement No. 20, to apply all GASB pronouncements and only FASB pronouncements issued before November 13, 1989.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the Housing Authority's funds are rent and maintenance charges to residents and administration fees earned. Operating expenses for proprietary funds include the administrative costs of providing the service and the housing assistance payments to residents. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. CASH AND CASH EQUIVALENTS Cash equivalents include amounts in demand deposits and interest-bearing demand deposits. Cash equivalents include amounts in time deposits and cash with fiscal agent. Under state law, the Housing Authority may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

E. INVESTMENTS Investments are limited by R.S. 33:2955 and the Housing Authority's investment policy. If the original maturities of investments exceed 90 days they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The investments are reflected at quoted market prices except for the following which are required/permitted as per GASB Statement No. 31:

Investments in *nonparticipating* interest-earning contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider markets rates, are reported using a cost-based measure.

The Housing Authority reported at amortized cost money market investments *participating* interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less.

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

Definitions:

Interest-earning investment contract include time deposits with financial institutions (such as certificates of deposit), repurchase agreements, and guaranteed investment contracts.

Money market investments are short-term, highly liquid debt instruments that include U.S. Treasury obligations.

F. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES During the course of operations, numerous transactions occur between individual funds for services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

G. INVENTORY All purchased inventory items are valued at cost using first-in, first-out method. Acquisition of materials and supplies are accounted for on the consumption method, that is, the expenses are charged when the items are consumed.

H. PREPAID ITEMS Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

I. CAPITAL ASSETS Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold is \$250. Donated capital assets are recorded at their estimated fair value at the date of donation. Estimated useful life is management's estimate of how long the asset is expected to meet service demand. Straight-line depreciation is used based on the following estimated useful lives:

Site improvements	15 years
Buildings	33 years
Building improvements	15 years
Furniture and fixtures	5 to 7 years
Computers	3 years

General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, sidewalks, and other infrastructure assets acquired subsequent to July 1, 2003.

J. DEFERRED REVENUES The Housing Authority reports deferred revenues on its balance sheet. Deferred revenues arise when resources are received by the Housing Authority before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the Housing Authority has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and the revenue is recognized.

**HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2004

K. COMPENSATED ABSENCES The Housing Authority follows Louisiana Civil Service regulations for accumulated annual and sick leave. Employees may accumulate up to three hundred hours of annual leave which may be received upon termination or retirement. Sick leave hours accumulate, but the employee is not paid for them if not used by his/her retirement or termination date.

L. RESTRICTED NET ASSETS Net assets are reported as restricted when constraints placed on net asset use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Restricted resources are used first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. INTERFUND ACTIVITY Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate. Services provided, deemed to be at market or near market rates, are treated as revenues and expenses.

All other interfund transfers are reported as operating transfers. Reimbursements are when one fund incurs cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. 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, expenses and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name

Category 3 - Uninsured and unregistered investments held by the counter-party, its trust department, or its agent, but not in the Authority's name

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

At June 30, 2004 the Housing Authority has Cash equivalents, and investments totaling \$168,996 as follows:

Cash on hand	\$	200	
Interest-bearing demand deposits		62,915	
Time deposits		105,881	
Total	\$	168,996	
Cash and cash equivalents	\$	143,454	
Cash and cash equivalents – restricted		3,325	
Investments		22,217	
Total	\$	168,996	

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2004, the Housing Authority's carrying amount of deposits was \$168,796 and the bank balance was \$171,770. Of the bank balance, \$171,770 was covered by federal depository insurance (GASB Category 1).

Investments during the year were solely in time deposits at banks.

NOTE 3 – CAPITAL ASSETS The changes in capital assets are as follows:

	Balance 6-30-03	Additions	Deletions	Balance 6-30-04
Land	\$ 35,951	\$ 0	\$ 0	\$ 35,951
Buildings	1,810,639	4,195	0	1,814,834
Furniture and equipment	63,621	1,348	538	64,431
Construction in progress	6,216	39,100	0	45,316
Total	1,916,427	44,643	538	1,960,532
Less: accumulated depreciation				
Buildings	1,375,243	43,427	0	1,418,670
Furniture and equipment	44,074	1,527	538	45,063
Total	1,419,317	44,954	538	1,463,733
Fixed assets, net	\$ 497,110	\$ (311)	\$ 0	\$ 496,799

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

NOTE 4 – RETIREMENT SYSTEM The Housing Authority participates in the Housing Renewal and Local Agency Retirement Plan which is a defined contribution plan. The plan consists of employees of various local and regional housing authorities, urban renewal agencies, and other similar organizations. Through this plan, the Housing Authority provides pension benefits for all of its full-time employees. All regular and full-time employees are eligible to participate in the plan from the first day of the month after completing one month of continuous and uninterrupted employment. Plan provisions and changes to plan contributions are determined by the Board of the Housing Authority.

Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Each participant in the plan is required to make monthly contributions equal to 14.5 percent of each participant's basic (excludes overtime) compensation. This payment represents a 6 percent contribution by the employee, and an 8.5 percent contribution by the Housing Authority.

The Housing Authority's contribution for each employee and income allocated to the employee's account is fully vested after five years of continuous service. The Housing Authority's contributions and interest forfeited by employees who leave employment before five years of service are used to offset future contributions of the Housing Authority. Normal retirement date shall be the first day of the month following the employee's 65th birthday or after 10 years of participation in the plan.

The Housing Authority did not make any contributions for the fiscal year.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Litigation The Housing Authority is not presently involved in litigation.

Grant Disallowances The Housing Authority participates in a number of state and federally assisted grant programs. The programs are periodically subject to compliance audits under the single audit approach. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. Housing Authority management believes that the amount of disallowance, if any, which may arise from future audits will not be material.

Construction Projects There are certain renovation or construction projects in progress at June 30, 2004. These include modernizing rental units. These projects are being funded by HUD. Funds are requested periodically as the cost is incurred.

Risk Management The Housing Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance.

HOUSING AUTHORITY OF WELSH
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

NOTE 6 – INTERFUND TRANSFERS Interfund transfers for the year June 30, 2004 consists of the following:

<u>Transfer To</u>	<u>Transfer From</u>	
Low Rent	Capital Fund – Operating	\$14,361
Low Rent	Capital Fund – Equity	58,407

The Capital Fund grant provisions allowed the PHA to transfer \$14,361 to the Low Rent program to pay for eligible Low Rent expenses and to also increase the operating reserve. An equity transfer of a completed Capital Fund program of \$58,407 was also done.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF WELSH
STATEMENT OF MODERNIZATION COSTS – UNCOMPLETED

YEAR ENDED JUNE 30, 2004

CASH BASIS

	2002 Capital Fund	2003 Capital Fund
Funds approved	\$ 71,806	\$ 59,081
Funds expended	<u>66,979</u>	<u>850</u>
Excess of funds approved	<u>\$ 4,827</u>	<u>\$ 58,231</u>
Funds advanced	\$ 66,979	\$ 850
Funds expended	<u>66,979</u>	<u>850</u>
Excess of funds advanced	<u>\$ 0</u>	<u>\$ 0</u>

HOUSING AUTHORITY OF WELSH
STATEMENT OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR PROGRAM TITLE	<u>CDFA NO.</u>	<u>PROGRAM EXPENDITURES</u>
U. S. Department of Housing and Urban Development Direct Programs:		
Low-Income Housing Operating Subsidy	14.850	<u>55,340</u>
Public Housing Capital Fund	14.872	<u>61,613</u>
Total United States Department of Housing and Urban Development		<u>116,953</u>
Total Expenditures of Federal Awards		<u>116,953</u>

Total Expenditures of Federal Awards

HOUSING AUTHORITY OF WELSH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

NOTE 1 – GENERAL The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Housing Authority of Welsh, Louisiana (the “Housing Authority”). The Housing Authority reporting entity is defined in note 1(A) to the Housing Authority’s general-purpose financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, is included on the schedule.

NOTE 2 – BASIS OF ACCOUNTING The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1(C) to the Housing Authority’s general-purpose financial statements.

NOTE 3 – RELATIONSHIP TO GENERAL-PURPOSE FINANCIAL STATEMENTS Federal awards revenues are reported in the Housing Authority’s general-purpose financial statements as follows:

		<u>Federal Sources</u>
Enterprise funds:		
Public Housing	\$	55,340
Capital Fund		61,613
Total	\$	<u>116,953</u>

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

NOTE 5 – FEDERAL AWARDS PROGRAMS For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures. In accordance with HUD Notice PIH 98-14, “federal awards” do not include Housing Authority operating income from rents or investments (or other non-federal sources). In addition, debt service annual contribution payments made by HUD directly to fiscal agents for holders of Housing Authority bonds or for Housing Authority notes held by the federal financing bank (FFB), are not considered when determining if the Single Audit Act “federal awards expended” threshold is met by the Housing Authority in a fiscal year. In addition, the entire amount of operating subsidy received during the fiscal year is considered to be “expended” during the fiscal year.

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MEMBER
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

Independent Accountant's Report
on Applying Agreed-Upon Procedures

Board of Commissioners
Housing Authority of Welsh
Welsh, Louisiana

We have performed the procedures included in the *Louisiana Government Audit Guide* and enumerated below, which were agreed to by the management of Housing Authority of Welsh, Louisiana and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about compliance with certain laws and regulations during the year ended June 30, 2004 included in the accompanying *Louisiana Attestation Questionnaire*. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Public Bid Law

1. Select all expenditures made during the year for material and supplies exceeding \$20,000, or public works exceeding \$100,000, and determine whether such purchases were made in accordance with LSA-RS 38:2211-2251 (the public bid law).

There were no expenditures made during the year for materials and supplies exceeding \$20,000 but four disbursements to one contractor totaled \$32,000. We examined documentation which indicated that all of these expenditures had been properly advertised and accepted in accordance with the provisions of LAS-RS 38:2211-2251.

Code of Ethics for Public Officials and Public Employees

2. Obtain from management a list of the immediate family members of each board member as defined by LSA-RS 42:1101-1124 (the code of ethics), and a list of outside business interests of all board members and employees, as well as their immediate families.

Management provided us with the required list including the noted information.

3. Obtain from management a listing of all employees paid during the period under examination.

Management provided us with the required list.

4. Determine whether any of those employees included in the listing obtained from management in agreed-upon procedure (3) were also included on the listing obtained from management in agreed-upon procedure (2) as immediate family members.

None of the employees included on the list of employees provided by management [agreed-upon procedure (3)] appeared on the list provided by management in agreed-upon procedure (2).

Budgeting

5. Obtained a copy of the legally adopted budget and all amendments.

Management provided us with a copy of the original budget. There were no amendments to the budget during the year.

6. Trace the budget adoption and amendments to the minute book.

We traced the adoption of the original budget to the minutes of a meeting held on April 29, 2003 which indicated that the budget had been adopted by the commissioners by unanimous consensus. No amendments were made to the budget during the year.

7. Compare the revenues and expenditures of the final budget to actual revenues and expenditures to determine if actual revenues failed to meet budgeted revenues by 5% or more or if actual expenditures exceed budgeted amounts by 5% or more.

We compared the revenues and expenditures of the final budget to actual revenues and expenditures. Actual revenues and expenditures for the year did not exceed budgeted amounts by more than 5%.

Accounting and Reporting

8. Randomly select a minimum of 6 disbursements made during the period under examination and:

- a) trace payments to supporting documentation as to proper amount and payee;

We examined supporting documentation for each of the seventy one selected disbursements (excluding payroll that was also reviewed) and found that payment was for the proper amount and made to the correct payee.

- b) determine if payments were properly coded to the correct fund and general ledger account; and

All of the payments were properly coded to the correct fund and general ledger account.

- c) determine whether payments received approval from proper authorities.

Inspection documentation supporting each of the seventy one selected disbursements indicated approvals from the Executive Director and the chairman of the Board of Commissioners.

Meetings

9. Examine evidence indicating that agendas for meetings recorded in the minute book were posted or advertised as required by LSA-RS 42:1 through 42:12 (the open meetings law).

The Housing Authority of Welsh properly posted a notice of each meeting and the accompanying agenda on the door of the PHA's office building and ran notices in the local newspaper. The Housing Authority also published the proceedings of the Board meetings in a local newspaper.

Debt

10. Examine bank deposits for the period under examination to determine whether any such deposits appear to be proceeds of bank loans, bonds or like indebtedness.

We inspected copies of all bank deposit slips for the period under examination and noted no deposits which appeared to be proceeds of bank loans, bonds or like indebtedness.

Advances and Bonuses

11. Examine payroll records and minutes for the year to determine whether any payments have been made to employees which may constitute bonuses, advances or gifts.

A reading of the minutes of the Authority for the year indicated no approval for the payments noted. We also inspected payroll records for the year and noted no instances which would indicate payments to employees which would constitute bonuses, advances or gifts.

Our prior year report, dated October 22, 2003, covered a Yellow Book Audit. It included three audit findings. A separate schedule covers these.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for use of management of the Housing Authority and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Mike Estes, P. C.
Fort Worth, Texas
November 30, 2004

LOUISIANA ATTESTATION QUESTIONNAIRE
(For Attestation Engagements of Government)

November 30, 2004 (Date Transmitted)

Mike Estes, P.C.

4200 Airport Freeway #100

Fort Worth, Texas 76117

(Auditors)

In connection with your compilation of our financial statements as of [date] and for the year then ended, and as required by Louisiana Revised Statute 24:513 and the *Louisiana Governmental Audit Guide*, we make the following representations to you. We accept full responsibility for our compliance with the following laws and regulation and the internal controls over compliance with such laws and regulations. We have evaluated our compliance with the following laws and regulations prior to making these representations.

These representations are based on the information available to us as of (date of completion/representations).

Public Bid Law

It is true that we have complied with the public bid law, LSA-RS Title 38:2212, and, where applicable, the regulations of the Division of Administration, State Purchasing Office.

Yes [X] No []

Code of Ethics for Public Officials and Public Employees

It is true that no employees or officials have accepted anything of value, whether in the form of a service, loan, or promise, from anyone that would constitute a violation of LAS-RS 42:1101-1124.

Yes [X] No []

It is true that no member of the immediate family of any member of the governing authority, or the chief executive of the governmental entity, has been employed by the governmental entity after April 1, 1980, under circumstances that would constitute a violation of LSA-RS 42:1119.

Yes [X] No []

Budgeting

We have complied with the state budgeting requirements of the Local Government Budget Act (LSA-RS 39:1301-14) or the budget requirements of LSA-RS 39:34.

Yes [X] No []

Accounting and Reporting

All non-exempt governmental records are available as a public record and have been retained for at least three years, as required by LSA-RS 44:1, 44:7, 44:31 and 44:36.

Yes [X] No []

We have filed our annual financial statements in accordance with LSA-RS 24:514, 33:463, and/or 39:92, as applicable.

Yes [X] No []

We have had our financial statements audited or compiled in accordance with LAS-RS 24:513.

Yes [X] No []

Meetings

We have complied with the provisions of the Open Meetings Law, provided in RS 42:1 through 42:12.

Yes [X] No []

Debt

It is true we have not incurred any indebtedness, other than credit for 90 days or less to make purchases in the ordinary course of administration, nor have we entered into any lease-purchase agreements, without the approval of the State Bond Commission, as provided by Article VII, Section 8 of the 1974 Louisiana Constitution, Article VI, Section 33 of the 1974 Louisiana Constitution, and LSA-RS 39:1410.60-1410.65.

Yes [X] No []

Advances and Bonuses

It is true we have not advanced wages or salaries to employees or paid bonuses in violation of Article VII, Section 14 of the 1974 Louisiana Constitution, LSA-RS 14:138, and AG opinion 79-729.

Yes [X] No []

We have disclosed to you all known noncompliance of the foregoing laws and regulations, as well as any contradictions to the foregoing representations. We have made available to you documentation relating to the foregoing laws and regulations.

We have provided you with any communications from regulatory agencies or other sources concerning any possible noncompliance with the foregoing laws and regulations, including any communications received between the end of the period under examination and the issuance of this report. We acknowledge our responsibility to disclose to you any known noncompliance which may occur subsequent to the issuance of your report.

Pamela Fontenot Executive Director November 30, 2004 Date

HOUSING AUTHORITY OF WELSH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Prior Audit Findings

A Yellow Book Audit was performed for the year ended June 30, 2003. That audit contained three audit findings, as follows:

03-01 – Tenant Files

Of the seven files we reviewed, four were not recertified on an annual basis. Also, none of the seven contained a Section 214 Declaration of Citizenship Status form.

The PHA is now recertifying on an annual basis and obtaining the Section 214 signed forms. This finding is cleared.

03-02 – Fidelity Bond

The fidelity bond covered only the Executive Director. It should also have covered the part-time clerk. It does now. This finding is cleared.

03-03 – Waiting List

The Waiting List did not include all of the information as required by federal regulations. It appears to now. This finding is cleared.

Current Findings

None