

HOUSING AUTHORITY OF MERRYVILLE
REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
TWELVE MONTHS ENDED DECEMBER 31, 2003

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 7-28-04

Mike Estes, P.C.
A Professional Accounting Corporation

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MEMBER
AMERICAN BOARD CERTIFIED
PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Commissioners
Housing Authority of Merryville
Merryville, Louisiana

Regional Inspector General for Audit
Office of Inspector General
Department of Housing and Urban
Development

We have audited the accompanying general-purpose combined financial statements of the Housing Authority of Merryville, Louisiana at and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose combined financial statements are the responsibility of the Housing Authority of Merryville, Louisiana's management. Our responsibility is to express an opinion on these general-purpose combined financial statements based on our audit.

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

In our opinion, the general-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of Merryville, Louisiana as of December 31, 2003, the results of its operations, changes in its total net assets and statement of cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2004 on our consideration of Housing Authority of Merryville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part on an audit performed 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined general-purpose financial statements of the Housing Authority of Merryville, Louisiana taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and other supplementary information is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the accompanying financial statements. Such information has been subjected to the auditing procedures applied in the audit of the accompanying financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying Financial Data Schedules required by HUD are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. 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 general purpose financial statements taken as a whole.

Mike Estes, P.C.
Fort Worth, Texas
June 4, 2004

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE

COMBINED BALANCE SHEET - ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2003ASSETS

Current assets		
Cash and cash equivalents	\$	164,722
Accounts receivable (net of allowance for doubtful accounts of zero)		4,234
Interfund receivable		3,599
Prepaid items and other assets		5,939
Inventory		1,672
		<hr/>
Total Current Assets		180,166
Restricted Assets		
Tenant deposits		4,264
		<hr/>
Fixed Assets		
Land, buildings, and equipment (net)		1,604,443
		<hr/>
TOTAL ASSETS		1,788,873
		<hr/>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities		
Accounts payable		2,180
Compensated absences payable		1,474
Interfund payable		3,599
Accrued PILOT		3,040
		<hr/>
Total Current Liabilities		10,293
Current Liabilities Payable from Current Restricted Assets		
Deposits due others		4,264
		<hr/>
Noncurrent Liabilities		
Compensated absences payable		454
		<hr/>
Total Liabilities		15,011
Fund Equity		
Contributed capital		1,501,537
Retained earnings:		
Unreserved		272,325
		<hr/>
Total Fund Equity		1,773,862
		<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$	1,788,873
		<hr/>

The Notes to the Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND EQUITY - ENTERPRISE FUNDS

YEAR ENDED DECEMBER 31, 2003

OPERATING REVENUES	
Dwelling rental	\$ 72,719
Other	23,096
	<u>95,815</u>
OPERATING EXPENSES	
Administration	61,487
Tenant services	1,276
Utilities	37,856
Ordinary maintenance & operations	135,828
Protective services	29,460
General expenses	32,496
Nonroutine maintenance	26,784
Depreciation	144,794
	<u>469,981</u>
Income (loss) from Operations	<u>(374,166)</u>
Non operating revenues (expenses)	
Interest earnings	433
Federal grants	300,697
Losses on Disposal of Equipment	(798)
	<u>300,332</u>
NET (INCOME) LOSS	(73,834)
Depreciation on fixed assets acquired by contribution	<u>133,457</u>
Increase in retained earnings	<u>59,623</u>

(CONTINUED)

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - ENTERPRISE FUNDS

YEAR ENDED DECEMBER 31, 2003

RETAINED EARNINGS AT BEGINNING OF YEAR	<u>212,702</u>
RETAINED EARNINGS AT END OF YEAR	<u>272,325</u>
CONTRIBUTED CAPITAL AT BEGINNING OF YEAR	1,634,994
Depreciation transferred from retained earnings	<u>(133,457)</u>
CONTRIBUTED CAPITAL AT END OF YEAR	<u>1,501,537</u>
FUND EQUITY, END OF YEAR	\$ <u>1,773,862</u>

(CONCLUDED)

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
COMBINED STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (374,166)
Adjustments to reconcile net income to	
Net cash provided by operating activities	
Depreciation	144,974
Changes in operating current assets and liabilities:	
Decrease in accounts receivables	44,809
Decrease in interfund receivables	44,493
Decrease in prepaid items and other assets	1,044
Decrease in inventory	2,137
Decrease in accounts payables	(10,768)
Increase in deposits due others	304
Increase in accrued PILOT	1,243
Decrease in interfund payable	(44,493)
Increase in liability for compensated absences	1,148
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(189,275)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal grants	236,895
Increase in long-term portion of compensated absences	454
	<hr/>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	237,349
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Federal grants	63,802
Construction costs and purchase of equipment	(80,305)
	<hr/>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(16,503)

CONTINUED

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
COMBINED STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

EXHIBIT C

YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in restricted assets	(304)
Interest earnings	434
	<hr/>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	130
	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	133,021
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 164,722

CONCLUDED

The Notes to the Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

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HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The accompanying general-purpose financial statements of the Housing Authority of the City of Merryville have been prepared in conformity with generally accepted accounting principles (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. BASIS OF PRESENTATION Housing Authorities are chartered as a public corporation under the laws (LSA-R.S. 40:391) of the state of state for the purpose of providing safe and sanitary dwelling accommodations. This creation was contingent upon the local governing body of the city declaring a need for the Housing Authority to function in such city. The Housing Authority is governed by a five-member board of Commissioners. The members, appointed by the Honorable Mayor of the City of Merryville, serve staggered multi-year terms.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) has direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into an annual contributions contract with the Housing Authority for the purpose of assisting the Housing Authority in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the Housing Authority for the purpose of maintaining this low-rent character.

The Housing Authority had 88 units in Low Rent management in two projects.

Program	Contract Number	Number Of Units
PHA owned housing	FW-1266	88

B. REPORTING ENTITY 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.

The Housing Authority is a related organization of the City of Merryville since the City of Merryville appoints a voting majority of the Housing Authority's governing board. The City of Merryville 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 Merryville. Accordingly, the Housing Authority is not a component unit of the financial reporting entity of the City of Merryville.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

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:

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.

C. 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. Proprietary funds account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds differ from governmental funds in that their focus is on income measurement, which together with the maintenance of equity, is an important financial indicator.

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 for 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 30, 1989.

D. BUDGETS

General Budget Policies The following summarizes the budget activities of the Housing Authority during the year ended December 31, 2003:

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

The Housing Authority adopted budgets for all HUD-funded programs. The budget is controlled by fund at the function level. All appropriations lapse at year end. Budgets are prepared on the modified accrual basis of accounting.

The Executive Director is authorized to transfer amounts between line items within any fund, with the exception of salaries, provided such does not change the total of any function.

E. CASH AND CASH EQUIVALENTS Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. 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 state law and national banks having their principal offices in state.

Under state law, the Housing Authority may invest in United States bonds, treasure notes, or certificates. These are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments are state at the lower of market or cost.

F. 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.

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.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

G. 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.

H. INVENTORY AND PREPAID ITEMS Inventories consist of expendable supplies held for consumption stated on a lower of cost or market on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenses consist of prepaid insurance.

I. FIXED ASSETS Fixed assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). 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 demands. *Interest costs during construction have not been capitalized.* 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

J. COMPENSATED ABSENCES The Housing Authority follows state 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.

K. DEFERRED REVENUES The Housing Authority reports deferred revenues on its combined 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 incurrence 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 combined balance sheet and the revenue is recognized.

L. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

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

At December 31, 2003 the Housing Authority has Cash equivalents, and investments totaling \$168,986 as follows:

Cash on hand	\$	125
Demand deposits		97,131
Time deposits		71,730
Total	\$	168,986
Cash and cash equivalents	\$	164,722
Cash and cash equivalents – restricted		4,264
Total	\$	168,986

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 December 31, 2003, the Housing Authority's carrying amount of deposits was \$168,861 and the bank balance was \$178,573. Of the bank balance, \$100,000 was covered by federal depository insurance (GASB Category 1). The remaining \$78,753 was collateralized with securities held by the pledging financial institution's trust department or agent but in the Housing Authority's name (GASB Category 2).

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

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 3 – RECEIVABLES the receivables of \$4,234 at December 31, 2003, are as follows:

<u>Class of Receivables</u>	
Local sources	
Tenants	\$ 635
Federal sources:	
Grants	3,599
Total	<u>\$ 4,234</u>

NOTE 4 – FIXED ASSETS The changes in general fixed assets are as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Land and buildings	\$ 3,555,340	\$ 19,493	\$ 0	\$ 3,574,833
Furniture and equipment	184,302	12,083	4,811	191,574
Construction in progress	20,880	48,729	0	69,609
Total	3,760,522	80,305	4,811	3,836,016
Less: accumulated depreciation				
Buildings	1,965,027	126,232	0	2,091,259
Furniture and equipment	125,585	18,562	3,833	140,314
Total	2,090,612	144,794	3,833	2,231,573
Fixed assets, net	\$ 1,669,910	\$ (64,489)	\$ (978)	\$ 1,604,443
	\$	\$	\$	\$

NOTE 5 – RETIREMENT SYSTEM The Housing Authority does not have a retirement plan.

NOTE 6 – ACCOUNTS PAYABLE The payables of \$2,180 at December 31, 2003, are as follows:

Trade payables	\$ 331
Payroll withholdings	1,849
	<u>\$ 2,180</u>

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 7 – COMPENSATED ABSENCES At December 31, 2003, employees of the Housing Authority have accumulated and vested \$1,928 of employee leave benefits, which was computed in accordance with GASB Codification Section C60. These amounts are recorded as liabilities in the funds from which payment will be made.

NOTE 8 – GENERAL LONG-TERM OBLIGATIONS The following is a summary of the long-term obligation transactions for the year ended December 31, 2003.

		Compensated Absences
Balance 12/31/02		0
Additions		454
Deductions		0
Balance, 12/31/03	\$	454

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation The Housing Authority is not presently involved in litigation.

Construction Projects There are certain renovation or construction projects in progress at December 31, 2003. These include modernizing rental units. These projects are being funded by HUD. Funds are requested periodically as the cost is incurred.

Grant Disallowances The Housing Authority participates in a number of federally assisted grant programs. Although the grant programs have been audited in accordance with the Single Audit Act Amendments of 1996 and OMB circular No. A-133 through December 31, 2003, these programs are still subject to compliance audits. Housing Authority management believes that the amount of disallowances, if any, which may arise from future audits will not be material.

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES At December 31, 2003, the Capital Fund owes \$3,599 to the Low Rent program.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
ANNUAL CONTRIBUTION CONTRACT

YEAR ENDED DECEMBER 31, 2003

1. The Actual Modernization Costs are as follows:

		1999 CIAP
Funds approved	\$	166,152
Funds expended		<u>166,152</u>
Excess of funds approved	\$	<u><u>0</u></u>
Funds advanced	\$	166,152
Funds expended		<u>166,152</u>
Excess of funds advanced	\$	<u><u>0</u></u>

2. The distribution of costs by project as shown on the Final Statement of Modernization Cost dated May 5, 2003 accompanying the Actual Modernization Costs Certificate submitted to HUD for approval is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
STATEMENT OF MODERNIZATION COSTS - UNCOMPLETED

YEAR ENDED DECEMBER 31, 2003

	<u>CASH BASIS</u>		
	<u>2001</u> CFP	<u>2002</u> CFP	<u>2003</u> CFP
Funds approved	\$ 194,301	\$ 183,880	\$ 142,760
Funds expended	<u>90,739</u>	<u>24,287</u>	<u>13,373</u>
Excess of funds approved	\$ <u>103,562</u>	\$ <u>159,593</u>	\$ <u>129,387</u>
Funds advanced	\$ 87,140	\$ 24,287	\$ 13,373
Funds expended	<u>90,739</u>	<u>24,287</u>	<u>13,373</u>
Excess of funds advanced	\$ <u>(3,599)</u>	\$ <u>0</u>	\$ <u>0</u>

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PUBLIC ACCOUNTANTS

Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133

Housing Authority of Merryville
Merryville, Louisiana

We have audited the compliance of the Housing Authority of Merryville, Louisiana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The Housing Authority of Merryville, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of Merryville, Louisiana's Management. Our responsibility is to express an opinion on the Housing Authority of Merryville, Louisiana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of Merryville, Louisiana's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority of Merryville, Louisiana's compliance with those requirements.

As described in item Audit Finding #03 - 02 in the accompanying schedule of findings and questioned costs, the Housing Authority of Merryville, Louisiana, did not comply with requirements regarding the Reporting requirement that is applicable to its Low Rent major program. Compliance with such requirements is necessary, in our opinion, for the Housing Authority of Merryville, Louisiana, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Housing Authority of Merryville, Louisiana, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. The

results of our auditing procedures also disclosed immaterial instances of noncompliance. They are Audit Findings #03 – 01, 03 – 03, and 03 – 04.

Internal Control Over Compliance

The management of The Housing Authority of Merryville, Louisiana is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of Merryville, Louisiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Merryville, Housing Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule as Audit Finding #03 - 02.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. Under state Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Mike Estes, P.C.
Fort Worth, Texas
June 4, 2004

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MIKE ESTES, CPA

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Governmental Auditing Standards

Housing Authority of Merryville
Merryville, Louisiana

We have audited the financial statements of the Housing Authority of Merryville, Louisiana as of and for the year ended December 31, 2003, and have issued our report thereon dated June 4, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Housing Authority of Merryville, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing a 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. It is Audit Finding #03 – 02. We noted three instances of immaterial noncompliance. They are Audit Findings #03 – 01, 03 – 03 and 03 – 04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of Merryville, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the PHAs ability to record, process, summarize, and report financial data consistent with the assertions of management in the

financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Audit Findings #03 – 02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. Under state Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Mike Estes, P. C.
Fort Worth, Texas
June 4, 2004

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
STATEMENT OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2003

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>218,507</u>
Public Housing Capital Fund	14.872	<u>82,190</u>
Total United States Department of Housing and Urban Development		<u>300,697</u>
Total Expenditures of Federal Awards		<u>300,697</u>

Total Expenditures of Federal Awards

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2003

NOTE 1 – GENERAL The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Housing Authority of the City of Merryville, 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:

		Federal Sources
Enterprise funds:		
Public Housing	\$	218,507
Capital Fund		82,190
Total	\$	300,697

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 – MAJOR FEDERAL AWARDS PROGRAMS The dollar threshold of \$300,000 was used to distinguish between Type A and Type B federal 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.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2003

Financial Statement Audit

- i. The type of audit report issued was unqualified.
- ii. There was one reportable conditions required to be disclosed *by Government Auditing Standards* issued by the Comptroller General of the United States.
- iii. There were no instances of noncompliance considered material, as defined by the *Government Auditing Standards* to the financial statements.

Audit of Federal Awards

- iv. There was one reportable conditions required to be disclosed by OMB Circular No. A-133.
- v. The type of report the auditor issued on compliance for major programs was qualified.
- vi. The audit disclosed one audit finding which the auditor is required to report under OMB Circular No. A-133, Section .510(a). Three immaterial findings are also disclosed.
- vii. The major federal programs are:

CFDA# 14.850 Public and Indian Housing – Low Rent Program

- viii. The dollar threshold used to distinguish between Type A and Type B programs as described in OMB Circular No. A-133, Section .520(b) was 300,000.
- ix. The auditee does not qualify as a low-risk auditee under OMB Circular No. A-133, Section .530.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2003

Finding 02 – 01 – Tenant Files Past Due For Recertification

For the prior audit, we reviewed nine tenant files. Three were past – due for recertification. This is repeated as Finding 03 – 01.

Current Audit Finding

Low Rent

Finding 03 – 01 – Tenants Past Due for Recertification

Statement of Condition

Of the nine tenant files we reviewed, two were not recertified timely. One was recertified two months late. The other was eight months late.

Criteria

24 CFR sections 960.209 requires the PHA to reexamine family income and composition at least once every 12 months and adjust the tenant rent if necessary.

Effect

Possibly, billed tenant rent was incorrect compared to what the calculation would be, if recertifications were timely done. We cannot determine the dollar amount of misstatement.

Cause

Unknown. The Executive Director has been conscientious in clearing several prior year audit findings.

Recommendation

We have discussed a reminder system that the PHA has recently employed. The PHA should utilize this system.

Corrective Action Plan – Response 03 – 01

I am Melissa Slaydon, Executive Director and Designated Person to answer this finding. We will comply with the above. We will utilize our reminder system to timely recertify everyone in the future.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2003

Finding 03 – 02 – 50058's Not Filed in 2003

Low Rent

Statement of Condition

50058's were not filed on anyone in 2003.

Criteria

The PHA is required to submit the 50058 form electronically to HUD each time the PHA completes an admission, annual re-examination, interim re-examination, or other change of unit for a family. OMB Circular A-133 considers 50058 to be critical information.

Effect and Questioned Costs

HUD was unable to include this PHA's info in its statistical data that HUD used for various purposes.

Cause

In early 2003, the PHA lost its data base, due to a lightning storm. Prior to the storm, the PHA was transmitting the 50058 info on HUD FRS, but had contracted with a private software provider to switch.

It was not until 2004 that the PHA could load all the new data with its new software provider, and transmit to PIC. The PHA established a May 1, 2004 baseline. Per the PHA, all 50058 input is presently current.

Recommendation

The PHA should keep all of its 50058 info current in the future.

Corrective Action Plan – Response 03 – 02

We will comply with the above.

Low Rent

Finding – 03 – 03 – Inadequate Documentation of Utility Allowance Review

Statement of Condition

The PHA did not review its utility allowances in 2003.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2003

Criteria

Federal regulations require the PHA to review utility rates at least annually, and revise the rates whenever there is a change of 10% or more in any category (24 CFR Section 982.517)

Effect

Utility allowances may have been incorrect.

Cause

Oversight

Recommendation

The PHA should do the survey or hire a consultant to perform a utility survey and propose revised utility allowances, if necessary.

Corrective Action Plan – Response 03 – 03

We will determine if rates need to be reviewed by July 31, 2004.

Low Rent and Capital Funding

Finding 03 – 04 – Lapses in Fidelity Bond Coverage

The PHA was without fidelity bond coverage from January 6, 2003 through April 18, 2003. The PHA was also without coverage from April 19, 2004 through May 11, 2004.

Criteria

Federal regulations, as well as good business practices, require a PHA to always have fidelity bond coverage.

Effect

The PHA can suffer financial loss that would be otherwise covered by fidelity bond insurance. However, there is no indication the PHA suffered loss in the two cited instances.

Cause

The current Executive Director was not yet hired when the three year premium started, that expired on January 1, 2003. She was unfamiliar with the requirement, and claims the insurance company did not remind her of the needed renewal. She was recovering from surgery when the 2004 lapse occurred.

Recommendation

We have discussed a reminder system with the Executive Director that she should use.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2003

Corrective Action Plan – Response 03 – 04

We will comply with the above.

SEE MANAGEMENT LETTER ON NEXT PAGE

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF MANAGEMENT LETTER ITEMS

YEAR ENDED DECEMBER 31, 2003

03 – M1 – Review of PIH Notice and Quality Control Checklists

The Executive Director recently attended a RHIIP and UIV HUD – sponsored seminar in California. She is already using many of the steps recommended at that seminar.

Still, the Executive Director and her recently hired assistant should carefully review Notice PIH 2004.1, issued March 9, 2004, regarding HUD established verification policies, and the HUD – preferred hierarchy of verification.

In addition, the PHA should improve the documentation of its quality control reviews.

03 – M1 – Corrective Action Plan – Response

The auditor gave us examples of quality control checklists which are more extensive than ours presently. We will immediately start using these checklists, or at least modify and extend the ones we presently use.

03 M2 – Monthly Rental Collections – Documentation

In the area of collecting and recording receipts from rental revenue and assessed charges to tenants, the PHA does an adequate job of segregating duties and performing quality control checks, considering the limited staff. This takes into consideration that office personnel consists only of an Executive Director and an administrative assistant.

However, documentation of the quality control needs to be improved. I have left a suggested daily control log with the PHA. This daily control should note:

- a) Person(s) receiving rental collections and issuing receipts to tenants.
- b) Person who reconciles and agrees total of cash receipts drawer to total of duplicates of rental receipts and/or computer receipts' listing.
- c) Person who prepares bank deposit.
- d) Person who agrees validated bank deposit total to original amount of deposit per © above.
- e) Person who agrees total month's validated deposit(s) to bank statement.
- f) Person who reconciles total rental receipts per bank to the collections per the monthly rental register (done monthly).

03 – M2 – Corrective Action Plan – Response

We will start using this control log immediately.

HOUSING AUTHORITY OF THE CITY OF MERRYVILLE
SCHEDULE OF MANAGEMENT LETTER ITEMS

YEAR ENDED DECEMBER 31, 2003

03 – M3 – Policy Adoption and Updates

The PHA is in the process of either adopting or revising various policies suggested by the Legislative Auditor. These include but are limited to policies related to credit cards, cellular phones, and others.

03 – M3 – Corrective Action Plan – Response

We are in the process of reviewing the above policies, plus others, for adoption. We hope to have this completed by August 31, 2004.