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**HOUSING AUTHORITY OF MERRYVILLE**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL DATA**

**TWELVE MONTHS ENDED DECEMBER 31, 2008**

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 6/10/09

**Mike Estes, P.C.**  
A Professional Accounting Corporation

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AUDIT QUALITY CENTER

Independent Auditor's Report

Board of Commissioners  
Housing Authority of Merryville  
Merryville, Louisiana

We have audited the accompanying basic financial statements of the Housing Authority of Merryville, Louisiana as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of Merryville, Louisiana's management. Our responsibility is to express an opinion on these 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 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, 2008, and the changes in its financial position and its 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 our report dated May 30, 2009, on our consideration of the Housing Authority of Merryville, Louisiana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Housing Authority of Merryville, Louisiana. The accompanying Schedule of Expenditures of Federal Awards 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 basic financial statements of the Housing Authority of Merryville, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The accompanying information identified in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mike Estes, P.C.  
Fort Worth, Texas  
May 30, 2009

**HOUSING AUTHORITY OF MERRYVILLE, LA**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**

**December 31, 2008**

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Housing Authority of Merryville, LA  
Management's Discussion and Analysis (MD&A)  
December 31, 2008

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**The management of Public Housing Authority of Merryville, Louisiana presents the following discussion and analysis (MD&A) of the Housing Authority's financial activities for the fiscal year ending December 31, 2008. This represents an overview of financial information. Please read this discussion and analysis in conjunction with the Authority's included audited financial statements.**

**FINANCIAL HIGHLIGHTS**

- The primary source of funding for these activities continues to be subsidies and grants from the Department of Housing and Urban Development (HUD), whereas tenant rentals provide a secondary but also significant source of funding.
- The Housing Authority's assets exceeded its liabilities by \$1,404,545 at the close of the fiscal year ended 2008.
  - ✓ Of this amount \$1,251,606 represents a restriction equal to the net amount invested in land, building, furnishings, leasehold improvements, equipment, and construction in progress.
  - ✓ The remainder of \$152,939 of unrestricted assets could be used to meet the Housing Authority's ongoing obligations to citizens and creditors. As a measure of financial strength, this amount equals 26% of the total operating expenses of \$592,453 for the fiscal year 2008, which means the Authority might be able to operate about 3 months using the unrestricted assets alone, which compares with 3 months in the prior fiscal year.
- The Housing Authority's total net assets decreased by \$190,460, a 12% change from the prior fiscal year 2008. This decrease is attributable to significant increases in Federal grants for both operations and capital improvements, described in more detail below.
- The decrease in net assets of these funds was accompanied by a decrease in cash and cash equivalents of \$41,748. Rental, federal, and other receipts were less than payments to vendors and employees by \$43,106.
- The Authority spent \$6,763 on furniture additions and \$1,749 on buildings during the current fiscal year.
- These changes led to a decrease in total assets by \$178,171 and an increase in total liabilities by \$12,289. As related measure of financial health, there are still over \$4.46 of current assets covering each dollar of total current and long-term liabilities, which compares unfavorably with \$7.36 covering the prior fiscal year's liabilities.
- The Housing Authority continues to operate without the need for debt borrowing.

**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, and whether there are inadequacies in the Authority's internal controls.

### **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 2008?" 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.

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.

### **USING THIS ANNUAL REPORT**

The Housing Authority's annual report consists of financial statements that show combined information about the Housing Authority's most significant programs:

- Low Rent Public Housing
- Public Housing Capital Fund Program

The Housing Authority's auditors provided assurance in their independent auditors' report with which this MD&A is included, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

### **Reporting the Housing Authority's Most Significant Funds**

The Housing Authority's 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.

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Housing Authority of Merryville, LA  
Management's Discussion and Analysis (MD&A)  
December 31, 2008

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**FINANCIAL ANALYSIS**

The Housing Authority's net assets were \$1,404,545 as of December 31, 2008. Of this amount, \$1,251,606 was invested in capital assets, and the remaining \$152,939 was unrestricted. No other specific Assets are restricted. Also, there are no other restrictions on general Net Assets.

**CONDENSED FINANCIAL STATEMENTS**

**Condensed Balance Sheet  
As of December 31, 2008**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets	197,133	234,851
Capital assets, net of depreciation	<u>1,251,606</u>	<u>1,392,059</u>
Total assets	<u>1,448,739</u>	<u>1,626,910</u>
<b>LIABILITIES</b>		
Current liabilities	43,392	31,376
Non-current liabilities	<u>802</u>	<u>529</u>
Total liabilities	<u>44,194</u>	<u>31,905</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of depreciation	1,251,606	1,392,059
Unrestricted net assets	<u>152,939</u>	<u>202,946</u>
Total net assets	<u>1,404,545</u>	<u>1,595,005</u>
Total liabilities and net assets	<u>1,448,739</u>	<u>1,626,910</u>

Housing Authority of Merryville, LA  
 Management's Discussion and Analysis (MD&A)  
 December 31, 2008

**CONDENSED FINANCIAL STATEMENTS (Continued)**

The net assets of these funds decreased by \$190,460, or by 12%, from those of fiscal year 2008, as explained below. In the narrative that follows, the detail factors causing this change are discussed:

**Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Fiscal Year Ended December 31, 2008**

	2008	2007
<b>OPERATING REVENUES</b>		
Dwelling rental	\$ 105,238	101,770
Governmental operating grants	277,958	252,835
Other	8,927	20,395
	392,123	375,000
<b>OPERATING EXPENSES</b>		
Administration	133,532	173,259
Utilities	41,455	41,153
Ordinary maintenance & operations	156,959	153,837
Protective services	47,542	0
General expenses	64,002	86,109
Depreciation	148,963	164,721
	592,453	619,079
Income (loss) from Operations	(200,330)	(244,079)
Non Operating Revenues (Expenses)		
Interest earnings	1,358	1,959
	1,358	1,959
Income (loss) before contribution	(198,972)	(242,120)
Capital Contribution	8,512	33,504
	(190,460)	(208,616)
Change in net assets	(190,460)	(208,616)
Total net assets - beginning	1,595,005	1,803,621
Total net assets - ending	\$ 1,404,545	\$ 1,595,005

## EXPLANATIONS OF FINANCIAL ANALYSIS

Compared with the prior fiscal year, total operating non-operating revenues, and capital contributions decreased \$8,471, or by 2%, from a combination of larger offsetting factors. Reasons for most of this change are listed below in order of impact from greatest to least:

- Federal revenues from HUD for operations increased by \$25,123, or by 10% from that of the prior fiscal year. The determination of operating grants is based in part upon operations performance of prior years. This amount fluctuates from year-to-year because of the complexities of the funding formula HUD employs. Generally, this formula calculates an allowable expense level adjusted for inflation, occupancy, and other factors, and then uses this final result as a basis for determining the grant amount. The amount of rent subsidy received from HUD depends upon an eligibility scale of each tenant. There was an increase in the number of eligible tenants receiving subsidies, so Housing Assistance Grants increased accordingly, lowering the overall total.
- Federal Capital Funds from HUD decreased by \$24,992, or by 75% from that of the prior fiscal year. The Housing Authority was still in the process of completing projects funded from grants by HUD for fiscal years 2006 through 2008, and submitted a new grant during fiscal year 2009.
- Total other operating revenue decreased from that of the prior fiscal year their revenue decreased by \$11,468 or by 38%.
- Tenant rental revenues increased by \$3,468, or by 3%, because occupancy rates decreased by 8%, and because the amount of rent each tenant pays is based on a sliding scale of their personal income. Some tenants' personal incomes increased, so rent revenue from these tenants increased accordingly, raising the overall total. Finally, other tenant revenues (such as fees collected from tenants for late payment of rent, damages to their units, and other assessments) decreased by \$900, or by 50%.
- Interest income decreased by \$601, or by 31% from that of the prior fiscal year.

Compared with the prior fiscal year, total operating expenses decreased \$26,626, or by 4%, but this also was made up of a combination of offsetting factors. Again, reasons for most of this change are listed below in order of impact from greatest to least:

- Maintenance and repairs increased by \$3,122, or by 2% from that of the prior fiscal year, due to several major factors: Repair staff wages increased by \$8,617, or by 21%, but related employee benefit contributions decreased by \$10,970, or by 42%. Also, materials used increased by \$1,193 and contract labor costs increased by \$4,221.
- Administrative Expenses decreased by \$39,727, from that of the prior fiscal year, due to a combination of offsetting factors: Administrative staff salaries increased by \$3,714, or by 6%, and related employee benefit contributions increased by \$10,778; therefore, total staff salaries and benefit costs increased by 26%. In addition, audit fees increased by \$500, or by 6%, accounting fees increased by \$1,157, or by 34%; thus, total outside professional fees increased by 15%. Finally, staff travel reimbursements increased by \$8,018. Sundry expenses decreased by \$70,796.
- General Expenses decreased by \$22,107 from that of the prior fiscal year, primarily because insurance premiums decreased by \$23,763, or by 35%, since property and casualty insurance premiums decreased. Also, payments in lieu of taxes (PILOT) increased by \$226, or by 4%. PILOT is calculated as a percentage of rent (which increased by 3%) minus utilities (which increased 1%), and therefore changed proportionately to the changes in each of these. Uncollectible rents from vacated units decreased by \$4,299, or by 39%, because these changed roughly proportional to rent, which increased by 3%.
- Depreciation expense decreased by \$15,758, or by 10% from that of the prior fiscal year, because some assets are reaching the end of their depreciable lives.
- Utilities Expense increased by \$302, or by 1% from that of the prior fiscal year.

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Housing Authority of Merryville, LA  
Management's Discussion and Analysis (MD&A)  
December 31, 2008

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At December 31, 2008, the Housing Authority had a total cost of \$4,214,686 invested in a broad range of assets and construction in progress from projects funded in 2006 through 2008, listed below. This amount, not including depreciation, represents increases of \$8,512 from the prior year. More detailed information about capital assets appears in the notes to the financial statements.

**Capital Assets, Net of Accumulated Depreciation  
As of December 31, 2008**

	<u>2008</u>	<u>2007</u>
Buildings	1,160,786	1,210,293
Land	40,466	40,466
Leasehold improvements	33,773	33,261
Furniture and equipment	16,581	22,641
Construction in progress	-	85,398
Total	<u>1,251,606</u>	<u>1,392,059</u>

As of the end of the 2008 fiscal year, the Authority is still in the process of completing HUD grants of \$410,801 obtained during 2006 through 2008 fiscal years. A total remainder of \$238,698 will be received and \$171,440 will be spent for completing these projects during fiscal year 2009. In addition, the Authority has been awarded \$174,536 in Asset Recovery Act funds, which is part of the economic stimulus recently signed into law.

**Debt**

Non-current liabilities also include accrued annual vacation and sick leave due to employees. 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. The capital budgets for the 2009 fiscal year have already been submitted to HUD for approval and no major changes are expected.

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 Debra Doyle, at Public Housing Authority of Merryville, Louisiana; P.O. Box 527; Merryville, LA 70653.

HOUSING AUTHORITY OF MERRYVILLE  
BALANCE SHEET  
DECEMBER 31, 2008

**ASSETS**

## Current assets

Cash and cash equivalents	\$ 74,797
Accounts receivable net	69,814
Prepaid items and other assets	11,048
Inventory	34,930
Restricted assets – cash and cash equivalents	6,544

Total Current Assets	197,133
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## Capital Assets, net

Land and other non-depreciated assets	40,466
Other capital assets - net of depreciation	1,211,140

Total Capital Assets, net	1,251,606
---------------------------	-----------

Total Assets	\$ 1,448,739
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**LIABILITIES**

## Current Liabilities

Accounts payable	\$ 26,457
Compensated absences payable	3,923
Accrued PILOT	6,468
Deposits due others	6,544

Total Current Liabilities	43,392
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## Noncurrent Liabilities

Compensated absences payable	802
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Total Liabilities	44,194
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**NET ASSETS**

Invested in capital assets, net of related debt	1,251,606
Unrestricted	152,939

Net Assets	1,404,545
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Total Liabilities and Net Assets	\$ 1,448,739
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The Notes to the Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF MERRYVILLE  
STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS  
YEAR ENDED DECEMBER 31, 2008

<b>OPERATING REVENUES</b>	
Dwelling rental	\$ 105,238
Governmental operating grants	277,958
Other	8,927
	<hr/>
Total Operating Revenues	392,123
	<hr/>
<b>OPERATING EXPENSES</b>	
Administration	133,532
Utilities	41,455
Ordinary maintenance & operations	156,959
Protective services	47,542
General expenses	64,002
Depreciation	148,963
	<hr/>
Total Operating Expenses	592,453
	<hr/>
Income (loss) from Operations	(200,330)
	<hr/>
Non Operating Revenues (Expenses)	
Interest earnings	1,358
	<hr/>
Total Non-Operating Revenues (Expenses)	1,358
	<hr/>
Income (loss) before contribution	(198,972)
	<hr/>
Capital Contribution	8,512
	<hr/>
Change in net assets	(190,460)
	<hr/>
Total net assets - beginning	1,595,005
	<hr/>
Total net assets - ending	\$ 1,404,545
	<hr/> <hr/>

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

HOUSING AUTHORITY OF MERRYVILLE  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2008

<b>CASH FLOWS FROM</b>	
<b>OPERATING ACTIVITIES</b>	
Rental receipts	\$ 96,628
Other receipts	10,246
Federal grants	269,232
Payments to vendors	(215,741)
Payments to employees – net	(203,471)
	<hr/>
Net cash provided (used) by operating activities	(43,106)
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(8,512)
Federal Capital Grants	8,512
	<hr/>
Net cash provided (used) by capital and related financing activities	0
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	1,358
	<hr/>
Net cash provided (used) by investing activities	1,358
	<hr/>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(41,748)</b>
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of Fiscal Year	123,089
	<hr/>
<b>CASH AND CASH EQUIVALENTS</b>	
End of Fiscal Year	\$ 81,341
	<hr/> <hr/>

Continued

HOUSING AUTHORITY OF MERRYVILLE  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2008

**RECONCILIATION OF OPERATING  
INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING  
ACTIVITIES**

Operating income (loss)	\$ (200,330)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation Expense	148,963
Provision of uncollectible accounts	(600)
Change in assets and liabilities:	
Receivables	(1,215)
Inventories	4,256
Prepaid items	2,257
Account payables	2,470
Security deposits	1,093
Net cash provided (used) by operations	<u>\$ (43,106)</u>

Concluded

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

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** The accompanying financial statements of the Housing Authority of Merryville 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 Louisiana 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 Merryville, serve staggered multi-year terms.

The Housing Authority has the following units:

PHA Owned Housing	FW 1266	88
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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 Louisiana 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 Town of Merryville since the Town of Merryville appoints a voting majority of the Housing Authority's governing board. The Town 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 Town of Merryville. Accordingly, the Housing Authority is not a component unit of the financial reporting entity of the Town of Merryville.

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 criteria 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 MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

- 1) Appointing a voting majority of an organization's governing body, and:
  - a) The ability of the government to impose its will on that organization and/or
  - b) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the government.
- 2) Organizations for which the government does not appoint a voting majority but are fiscally dependent on the government.
- 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 are maintained consistent with legal and managerial requirements.

The transactions of the Housing Authority are reported in a proprietary enterprise fund. The general fund accounts for the transactions of the public housing Low Rent program and the Capital Fund program.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

**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 30, 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 are rent and maintenance charges to residents and operating fees earned. Operating expenses for proprietary funds include the administrative costs of providing the service and the housing assistance payments to landlords. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

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

**E. INVESTMENTS** Investments are limited to L.S.-R.S. 33:2955 and the Housing Authority 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 market 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.

**F. INVENTORY** All purchased inventory items are valued at cost using the first-in, first-out method. Inventory is recorded using the purchase method. At year end, the amount of inventory is recorded for external financial reporting.

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

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**H. CAPITAL ASSETS** Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold is \$200. 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. Straight line depreciation is used based on the following estimated useful lives:

Site improvements	15 years
Buildings	15-33 years
Building improvements	15 years
Furniture and equipment	5-7 years
Computers	3 years

**I. 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.

**J. 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.

**K. 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.

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**NOTE 2 – DEPOSITS AND INVESTMENTS** The Housing Authority has reported their investments with a maturity at time of purchase of one year or less at amortized cost. Investments with maturity at time of purchase of greater than one year are presented at fair value at December 31, 2008. Deposits are stated at cost, which approximates fair value.

Interest Rate Risk: The Housing Authority’s policy does not address interest rate risk.

Credit Rate Risk: GASB 40 disclosure of credit rate risk does not apply, since the Authority has no investments.

Custodial Credit Risk: The Authority’s policy requires the financial institution to cover the first \$100,000 of deposits with FDIC coverage. Any excess deposits must be collateralized with securities held by the pledging financial institution, with a fair market value that equals or exceeds the amount of excess deposits.

At December 31, 2008, the Housing Authority’s carrying amount of deposits was \$81,316 and the bank balance was \$85,332, which includes a money market account of \$62,069. Of the bank balance, all of the balance was covered by FDIC insurance, and was not subject to custodial credit risk.

**NOTE 3 – ACCOUNTS RECEIVABLE** The receivables at December 31, 2008, are as follows:

<u>Class of Receivables</u>	
Local sources:	
Tenants	\$ 2,555
Federal sources:	
Grants	67,259
Total	<u>\$ 69,814</u>

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**NOTE 4 – CAPITAL ASSETS** The changes in capital assets are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Non-depreciable assets</b>				
Land and buildings	\$ 40,466	\$ 0	\$ 0	\$ 40,466
Construction in progress	85,398	0	85,398	0
<b>Depreciable assets:</b>				
Exhaustible capital assets				
Buildings	3,888,854	87,147	0	3,976,001
Furniture and equipment	191,458	6,760	0	198,218
Total	<u>4,206,176</u>	<u>93,907</u>	<u>85,398</u>	<u>4,214,685</u>
<b>Less: accumulated depreciation</b>				
Buildings	2,645,299	136,141	0	2,781,440
Furniture and equipment	168,818	12,821	0	181,639
Total	<u>2,814,117</u>	<u>148,962</u>	<u>0</u>	<u>2,963,079</u>
Capital assets, net	<u>\$ 1,392,059</u>	<u>\$ (55,055)</u>	<u>\$ 85,398</u>	<u>\$ 1,251,606</u>

**NOTE 5 – ACCOUNTS PAYABLE** The payables at December 31, 2008 are as follows:

Vendors	\$ 18,645
Payroll taxes & Retirement withheld	7,108
Other	<u>704</u>
Total	<u>\$ 26,457</u>

HOUSING AUTHORITY OF MERRYVILLE  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2008

**NOTE 6 – COMPENSATED ABSENCES** At December 31, 2008, employees of the Housing Authority have accumulated and vested \$4,725 of employee leave computed in accordance with GASB, Codification Section C60.

**NOTE 7 – LONG – TERM OBLIGATIONS** The following is a summary of the long – term obligation transactions for the year ended December 31, 2008.

		Compensated Absences
Balance, beginning	\$	3,717
Additions		5,728
Deductions		(4,720)
Balance, ending		4,725
Amounts due in one year	\$	3,923

**NOTE 8 – RETIREMENT SYSTEM** The Housing Authority does not have a retirement plan.

**NOTE 9 – INTERPROGRAM TRANSFERS** Interprogram transfers for the year December 31, 2008 consists of the following:

The Capital Fund grant provisions allowed the PHA to transfer \$53,723 to the Low Rent program to pay for eligible Low Rent expenses.

HOUSING AUTHORITY OF MERRYVILLE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2008

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Commitments**

**Litigation** The Housing Authority is not presently involved in litigation.

**Grant Disallowances** The Housing Authority participates in a number of federally assisted grant programs. The programs are 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 December 31, 2008. 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.

The Housing Authority transfers risk of loss by participating in a public entity risk pool and contracting with a commercial insurance carrier for all major categories of exposed risk.

This includes coverage of property, general liability, public liability, bond, and worker's compensation. The risk pool and insurance contracted are obligated to meet settlements up to the maximum coverage, after the PHA's premiums and deductions are met.

Louisiana State law prohibits one governmental entity assessing another entity. If the Louisiana Housing Council Group Self Insured Fund (LHC) risk pool is unable to meet its obligations, the risk to the Housing Authority is only that it s own claim would be unpaid.

Coverage has not significantly changed from the previous year and settlements for each of the past three years have not exceeded insurance coverage.

**NOTE 11 – ECONOMIC DEPENDENCE** The Department of Housing and Urban Development provided \$286,470 to the Housing Authority, which represents approximately 71% of the Housing Authority's total revenue and capital contributions for the year.

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

To the Housing Authority of Merryville  
Merryville, Louisiana

We have audited the basic financial statements of the Housing Authority of Merryville, Louisiana, as of and for the year ended December 31, 2008, and have issued our report thereon dated May 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority of Merryville, Louisiana's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authority of Merryville, Louisiana's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority of Merryville, Louisiana's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Audit Findings 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies discussed above are a material weakness.

#### Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings as Audit Finding 08-01 and 08-02.

The Housing Authority of Merryville, Louisiana's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Housing Authority of Merryville, Louisiana's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mike Estes, P.C.  
Fort Worth, Texas  
May 30, 2009

HOUSING AUTHORITY OF MERRYVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2008

**Section I – Summary of the Auditor’s Results**

**Financial Statement Audit**

- i. The type of audit report issued was unqualified.
- ii. There were two significant deficiencies 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.

HOUSING AUTHORITY OF MERRYVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2008

**Section II – Findings related to the financial statements which are required to be reported in accordance with Governmental Auditing Standards generally accepted in the United States of America:**

The person who had been Executive Director for several years resigned, effective March 31, 2009. The Authority hired her replacement in February. She started working then, but did not become Executive Director until April 1.

08-01-Insufficient Quality Control Review

Statement of Condition

Quality control checks on significant aspects of the Low Rent tenant files were insufficient.

Criteria

Statement on Auditing Standards [SAS #112], effective for years ended December 31, 2006 and after, requires documented quality control checks for all significant areas.

The July 2007 Revision [and earlier versions] of Government Auditing Standards state that generally accepted government auditing standards incorporate AICPA auditing standards. In addition, the Government Accountability Office [GAO] adopted SAS #112 internal control terminology in January 2007. In June 2007, the OMB revised Circular A-133 to adopt SAS #112 internal control terminology.

The lack of quality control checks over a significant function, such as tenant rent calculation, is a lacking component of internal control, and strongly suggests a significant deficiency, per Section 19 of SAS # 112.

Effect

For every tenant that we reviewed that had been an occupant at the beginning of the audit year, no recertification was timely performed, or performed at all, in 2008. In addition no EIV checks were documented for these participants, in 2008, except for one.

Cause

The former Executive Director stated that she intended to do the quality control checks, as well as schedule the recertifications and do the EIV checks, but she did not get to it.

Recommendation

I have discussed with the new Executive Director that the quality control checks need to be done and documented. She was already aware that the recerts were past due. She and the clerk are working on them, and doing the EIV checks.

HOUSING AUTHORITY OF MERRYVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2008

**Section II – Findings related to the financial statements which are required to be reported in accordance with Governmental Auditing Standards generally accepted in the United States of America:**

08-01-Corrective Action Plan-Response

I am Debra Doyle, Executive Director and Designated Person the answer these findings. As noted above, I became Executive Director on April 1, 2009. We were already following the auditor's recommendation. We are in the process of performing all of the past due recertifications. I will perform and document quality control checks. When I do the original calculations, such as some or all of the recertifications, the clerk will do quality control checks on my work.

08-02-Utility Allowance Review Not Done

The Authority did not perform a utility allowance review during the year ended December 31, 2008.

Criteria

Federal regulations require the Authority to review utility rates at least annually, and revise the rates whenever there is a change of 10% or more in a category [24 CFR Section 982.517].

Effect

Utility allowances may have been incorrect.

Cause

The former Executive Director claims she worked on the review, but could not obtain sufficient information to complete it.

Recommendation

The Authority should hire a consultant to perform a utility survey and propose revised utility allowances, if necessary.

Corrective Action Plan-Response

We will review the utility allowances, and if necessary, we will timely revise them. We will try to have the review completed by July 31, 2009.

HOUSING AUTHORITY OF MERRYVILLE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2008

The following prior audit finding was a reportable condition, required to be reported, in the prior year in accordance with *Governmental Auditing Standards* generally accepted in the United States of America:

Program Name – Low Rent

07 – 01 Insufficient Quality Control Review

Condition:

We examined ten files. The annual recertifications were past due in there.

Recommendation:

A system should be used that reminds management of upcoming recertifications due. All recerts should be timely completed.

Current Status:

The finding is repeated in this audit.

**SUPPLEMENTARY INFORMATION**

HOUSING AUTHORITY OF MERRYVILLE  
STATEMENT OF MODERNIZATION COSTS - UNCOMPLETED

YEAR ENDED DECEMBER 31, 2008

	CASH BASIS		
	2006	2007	2008
	<u>Capital Fund</u>	<u>Capital Fund</u>	<u>Capital Fund</u>
Funds approved	\$ 136,302	\$ 136,613	\$ 137,886
Funds expended	<u>136,302</u>	<u>53,217</u>	<u>49,843</u>
Excess of funds approved	<u>\$ 0</u>	<u>\$ 83,396</u>	<u>\$ 88,043</u>
Funds advanced	\$ 133,173	\$ 40,644	\$ 0
Funds expended	<u>136,302</u>	<u>53,217</u>	<u>49,843</u>
Excess (deficiency) of funds advanced	<u>\$ (3,129)</u>	<u>\$ (12,573)</u>	<u>\$ (49,843)</u>

See accountants' report

HOUSING AUTHORITY OF MERRYVILLE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2008

FEDERAL GRANTOR PROGRAM TITLE	CDFA NO.	PROGRAM EXPENDITURES
U. S. Department of Housing and Urban Development Direct Programs:		
Low-Income Housing Operating Subsidy	14.850a	\$ 220,173
Public Housing Capital Fund	14.872	66,297
Total United States Department of Housing and Urban Development		\$ 286,470
Total Expenditures of Federal Awards		\$ 286,470

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

YEAR ENDED DECEMBER 31, 2008

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

**NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS** Federal awards revenues are reported in the Housing Authority’s basic financial statements as follows:

	Federal Sources
General	\$ 286,470
Total	\$ 286,470

**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.