

**HOUSING AUTHORITY OF KINDER, LOUISIANA**  
**REPORT ON EXAMINATION OF**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**  
**TWELVE MONTHS ENDED DECEMBER 31, 2001**

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 8/7/02

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

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MEMBER  
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Independent Auditor's Report

Board of Commissioners  
Housing Authority of Kinder  
Kinder, 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 Kinder, Louisiana at and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose combined financial statements are the responsibility of the Housing Authority of Kinder, 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 Kinder, Louisiana as of December 31, 2001, 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 May 20, 2002 on our consideration of Housing Authority of Kinder'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 Kinder, Louisiana taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis but 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  
May 20, 2002

HOUSING AUTHORITY OF THE CITY OF KINDER  
 COMBINED BALANCE SHEET - ENTERPRISE FUNDS  
 YEAR ENDED DECEMBER 31, 2001

ASSETS

Current assets	
Cash and cash equivalents	\$ 44,648
Investments	71,980
Accounts receivable (net of allowance for doubtful accounts of zero)	137
Interest receivable	307
Prepaid items and other assets	2,178
Inventory	188
Total Current Assets	119,438
Restricted Assets	
Tenant deposits	2,165
Resident participation	750
Total Restricted Assets	2,915
Fixed Assets	
Land, buildings, and equipment (net)	198,994
TOTAL ASSETS	321,347
<u>LIABILITIES AND FUND EQUITY</u>	
Current Liabilities	
Accounts payable	375
Accrued PILOT	4,216
Total Current Liabilities	4,591
Current Liabilities Payable from Current Restricted Assets	
Deposits due others	2,165
Total Liabilities	6,756
Fund Equity	
Contributed capital	158,223
Retained earnings: Unreserved	156,368
Total Fund Equity	314,591
TOTAL LIABILITIES AND FUND EQUITY	\$ 321,347

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

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

YEAR ENDED DECEMBER 31, 2001

<b>OPERATING REVENUES</b>	
Dwelling rental	\$ <u>52,671</u>
Total revenues	<u>52,671</u>
<b>OPERATING EXPENSES</b>	
Administration	41,859
Utilities	9,635
Ordinary maintenance & operations	21,753
General expenses	14,315
Depreciation	<u>44,822</u>
Total operating expenses	<u>132,384</u>
Income (loss) from Operations	<u>(79,713)</u>
<b>Non operating revenues (expenses)</b>	
Interest earnings	3,440
Federal grants	<u>85,231</u>
Total Non-operating revenues (expenses)	<u>88,671</u>
<b>NET INCOME (LOSS)</b>	8,958
Depreciation on fixed assets acquired by contribution	<u>44,822</u>
Increase in retained earnings	<u>53,780</u>
<b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>	<u>102,588</u>
<b>RETAINED EARNINGS AT END OF YEAR</b>	<u>156,368</u>
<b>CONTRIBUTED CAPITAL AT BEGINNING OF YEAR</b>	203,045
Depreciation transferred from retained earnings	<u>(44,822)</u>
<b>CONTRIBUTED CAPITAL AT END OF YEAR</b>	<u>158,223</u>
<b>FUND EQUITY, END OF YEAR</b>	<u>\$ <u>314,591</u></u>

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

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

YEAR ENDED DECEMBER 31, 2001

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (79,713)
Adjustments to reconcile net income (loss) to	
Net cash provided by operating activities	
Depreciation	44,822
Changes in operating current assets and liabilities:	
Decrease in accounts receivables	623
Increase in interest receivables	(307)
Increase in prepaid items and other assets	(290)
Decrease in inventory	188
Increase in accounts payables	259
Decrease in deposits due others	(160)
Decrease in deferred revenue	(117)
Increase in accrued PILOT	319
	(34,376)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Federal grants	44,460
	 44,460
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Federal grants	40,771
Construction costs and purchase of equipment	(40,771)
	0

(CONTINUED)

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

YEAR ENDED DECEMBER 31, 2001

<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Decrease in investments	\$ 606
Increase in restricted assets	(590)
Interest earnings	<u>3,440</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>3,456</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	13,540
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>31,108</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 44,648</u>

(CONCLUDED)

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

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

YEAR ENDED DECEMBER 31, 2001

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

YEAR ENDED DECEMBER 31, 2001

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** The accompanying general-purpose financial statements of the Housing Authority of the City of Kinder 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 Louisiana 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 Kinder, 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 30 units in Low Rent management in two projects.

Program	Contract Number	Number Of Units
PHA owned housing	FW-669	30

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

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

YEAR ENDED DECEMBER 31, 2001

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, 2001:

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

YEAR ENDED DECEMBER 31, 2001

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 Louisiana law and national banks having their principal offices in Louisiana.

Under state law, the Housing Authority may invest in United States bonds, treasury 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 stated 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 KINDER  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

**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** All inventory items are valued at cost using 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.

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 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.

**K. FUND EQUITY** Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use.

**L. 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.

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

YEAR ENDED DECEMBER 31, 2001

**M. 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 off revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS** At December 31, 2001 the Housing Authority has Cash equivalents, and investments totaling \$119,543 as follows:

Cash on hand	\$	50
Demand deposits		33,223
Time deposits		86,270
Total	\$	119,543
Cash and cash equivalents	\$	44,648
Cash and cash equivalents – restricted		2,915
Investments		71,980
Total	\$	119,543

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, 2001, the Housing Authority's carrying amount of deposits was \$119,493 and the bank balance was \$124,507. Of the bank balance, \$100,000 was covered by federal depository insurance (GASB Category 1). The remaining \$24,507 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.

**NOTE 3 – RECEIVABLES** the receivables of \$137 at December 31, 2001, are as follows:

<u>Class of Receivables</u>		
Local sources		
Tenants	\$	137
Total	\$	137

HOUSING AUTHORITY OF THE CITY OF KINDER  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2001

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

	Balance 12/31/00	Additions	Deletions	Balance 12/31/01
Land and buildings	\$ 1,030,422	\$ 0	\$ 0	\$ 1,030,422
Furniture and equipment	50,550	0	1,604	48,946
Construction in progress	3,278	40,771	0	44,049
Total	<u>1,084,250</u>	<u>40,771</u>	<u>1,604</u>	<u>1,123,417</u>
Less: accumulated depreciation				
Buildings	816,342	42,623	0	858,965
Furniture and equipment	64,863	2,199	1,604	65,458
Total	<u>881,205</u>	<u>44,822</u>	<u>1,604</u>	<u>924,423</u>
Fixed assets, net	<u>\$ 203,045</u>	<u>\$ (4,051)</u>	<u>\$ 0</u>	<u>\$ 198,994</u>

**NOTE 5 – RETIREMENT SYSTEM** The Housing Authority participates in the Housing Renewal and Local Agency Retirement Plan which is a defined contribution plan. The plan consists of employees of various local and regional housing authorities, urban renewal agencies, and other similar organizations. Through this plan, the Housing Authority provides pension benefits for all of its full-time employees. All full-time employees are eligible to participate in the plan from the first anniversary date of the employment.

Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Each participant in the plan is required to make a monthly contribution equal to 5 percent of his effective compensation. The employer is required to make monthly contributions equal to 8.5 percent of each participant's effective compensation.

The Housing Authority's contribution for each employee and income allocated to the employee's account is fully vested after five years of continuous service. The Housing Authority's contributions and interest forfeited by employees who leave employment before five years of service are used to offset future contributions of the Housing Authority.

The Housing Authority's total payroll for year ended December 31, 2001, was \$31,174. The Housing Authority's contributions were calculated using the base salary amount of \$13,152. The Housing Authority made the required contributions of \$1,775 for the year ended December 31, 2001, of which \$1,118 was paid by the Housing Authority and \$657 was paid by employees. No payments were made out of the forfeiture account.

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

YEAR ENDED DECEMBER 31, 2001

**NOTE 6 – ACCOUNTS PAYABLES** The payables of \$375 at December 31, 2001, are as follows:

Trade payables	\$	282
Payroll withholdings		93
	\$	<u>375</u>

**NOTE 7 - COMPENSATED ABSENCES** At December 31, 2001, employees of the Housing Authority have accumulated and vested no employee leave benefits, which have been computed in accordance with GASB Codification Section C60.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES** 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. 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.

**SUPPLEMENTARY INFORMATION**

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

YEAR ENDED DECEMBER 31, 2001

CASH BASIS

		<u>Project 1999</u>		<u>2001 Capital Funding</u>
Funds approved	\$	55,071	\$	62,500
Funds expended		<u>40,927</u>		<u>643</u>
Excess of funds approved	\$	<u>14,144</u>	\$	<u>61,857</u>
Funds advanced	\$	40,927	\$	643
Funds expended		<u>40,927</u>		<u>643</u>
Excess of funds advanced	\$	<u>0</u>	\$	<u>0</u>

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

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MEMBER  
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PUBLIC ACCOUNTANTS

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 Kinder  
Kinder, Louisiana

We have audited the financial statements of the Housing Authority of Kinder, Louisiana as of and for the year ended December 31, 2001, and have issued our report thereon dated May 20, 2002. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Authority of Kinder, 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 two instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of Kinder, 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 Notes to the Financial Statements are an integral part of these statements.

financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Audit Findings #1 and #2.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the 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. We noted one matter involving the internal control over financial reporting and its operation that we consider to be material weakness. It is the first audit finding.

This report is a matter of public record and its distribution is not limited.

Mike Estes, P. C.  
Fort Worth, Texas  
May 20, 2002

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

YEAR ENDED DECEMBER 31, 2001

FEDERAL GRANTOR PROGRAM TITLE	<u>CDFA NO.</u>	<u>GRANT ID #</u>	<u>PROGRAM EXPENDITURES</u>
U. S. Department of Housing and Urban Development Direct Programs:			
Low-Income Housing Operating Subsidy	14.850		43,661
Program Total			<u>43,661</u>
Comprehensive Improvement Assistance Program	14.852		40,927
Program Total			<u>40,927</u>
Public Housing Capital Fund	14.872		643
Program Total			<u>643</u>
Total HUD			<u>85,231</u>

Total Expenditures of Federal Awards

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

YEAR ENDED DECEMBER 31, 2001

**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 Kinder, 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	\$	43,661
CIAP		40,927
Capital Fund		643
Total	\$	85,231

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

**NOTE 5 – FEDERAL AWARDS PROGRAMS** For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures. In accordance with HUD Notice PIII 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.

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

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

YEAR ENDED DECEMBER 31, 2001

**Financial Statement Audit**

- i. The type of audit report issued was unqualified.
- ii. There were two reportable conditions required to be disclosed by *Government Auditing Standards* issued by the Comptroller General of the United States.
- iii. There was one instance of noncompliance considered material, as defined by *the Government Auditing Standards* to the financial statements. It is the first audit finding.

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

YEAR ENDED DECEMBER 31, 2001

Prior Audit Findings and Questioned Costs

There were no prior audit findings.

Current Audit Findings

Entity-wide or program/department specific

Low Rent

1) Year-End PFS Mandatory Adjustment Miscalculated

Statement of Condition

The PHA's fee accountant did not use the recently revised HUD-52723 to calculate the year-end mandatory adjustment for the performance operating subsidy.

Criteria

The fee accountant used the incorrect form.

Effect

The original adjustment prepared by the fee accountant reflects a \$7,379 due to HUD. Our calculation, using the correct form, shows \$4,826 due the PHA – a difference of \$12,205.

Cause

It appears the fee accountant, at least at the time this calculation was done, did not have adequately trained personnel. In addition, if a proper supervisory review had been made, the error would have been noticed.

Recommendation

From inquiries we have made, we are aware that the fee accountant has recently become aware that this mandatory adjustment was incorrect. The fee accountant has recently made sure the responsible personnel have become familiar with the new PFS forms and calculations. The fee accountant is in the process of revising the year-end adjustment. When the fee accountant is sure its correct, the PHA will receive a revised copy, which it needs to sign and send to HUD.

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

YEAR ENDED DECEMBER 31, 2001

Our recommendation is that in the future, the PHA should more closely review the PFS forms after they are received from the fee accountant and before they are sent to HUD. The PHA should also obtain assurance from the CEO of the fee accountant that these PFS calculations will undergo an in-house supervisory review in the future.

Corrective Action Plan – Response

I am Sylvia Manuel, Executive Director and designated person to answer these findings. I will comply with the above.

Low Rent

2) MASS Turnaround Incorrectly Calculated

Statement of Condition

Sub-Indicator #1, Vacant Unit Turnaround was incorrectly calculated.

Criteria

Management Assessment for Public Housing Agencies is required reporting.

Effect

Answers are as follows:

	Original Per PHA	<u>Correct</u>
1) V124, Total turnaround days	587	575
2) V128, Average number of calendar days units in downtime	1.09	1.50
3) V129, Average make ready	5.92	4.00
4) V130, Average lease-up	9.42	42.42
5) V131, Average turnaround days	48.92	47.92

Cause

An assistant prepared the calculations and did not totally understand the methodology.

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

YEAR ENDED DECEMBER 31, 2001

Recommendation

I have worked with the Executive Director on the proper method. I have shown her how I revised her calculation and gave her a worksheet. If she does not do the MASS next year, she should check her assistant's preparation.

Corrective Action Plan – Response

I will carefully review this in the future.

HOUSING AUTHORITY OF KINDER  
SCHEDULE OF AUDIT JOURNAL ENTRIES

YEAR ENDED DECEMBER 31, 2001

	<u>ACCT. # FOR AUDIT PURPOSES</u>	<u>DR</u>	<u>CR</u>	<u>ACCT. # FOR POSTING TO PHA BOOKS</u>
1 Investments	131	71,980		
Cash – unrestricted	111		72,730	
Cash – restricted	113	750		

To reclassify investments and also funds held for Resident Participation