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**HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA**

**REPORT ON EXAMINATION OF  
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION**

**Year Ended September 30, 1998**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 APR 14 1999

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

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# McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925  
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602 3070  
318 433-1063 • Fax 318 436-6618 • E-mail: mqb@iamerica.net

Carl W. Comeaux, CPA  
Barbara Hutson Gonzales, CPA  
Judson J. McCann Jr., CPA  
Martin J. Chelotsky, CPA, CFE  
Robert M. Gani, CPA  
Tina L. Demarest, CPA



Charles P. Quirk, CPA  
Otay J. Woods Jr., CPA  
Robert E. Cargile, CPA  
William A. Mancuso, CPA  
Charles L. McElroy, CPA (1917-1997)  
Patrick J. Reddin, CPA (1926-1995)  
Frank D. Burch, CPA (1921-1991)

Mollie C. Broussard, CPA

## INDEPENDENT AUDITOR'S REPORT

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Board of Commissioners  
Housing Authority of the City  
of Lake Charles  
Lake Charles, Louisiana 70601

Regional Inspector General for Audit  
Department of Housing and Urban  
Development  
221 W Lancaster Street, P.O. Box 2905  
Fort Worth, Texas 76113

We have audited the financial statements of the Housing Authority of the City of Lake Charles, Louisiana at and for the year ended September 30, 1998, as listed in the Table of Contents. These financial statements are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133, Audits of State and Local Governments. 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Housing Authority of the City of Lake Charles, Louisiana, has included such disclosures in Note 15. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Housing Authority of the City of Lake Charles, Louisiana's disclosures with respect to the year 2000 issue made in Note 15. Further, we do not provide assurance that the Housing Authority of the City of Lake Charles, Louisiana, is or will be year 2000 ready, that the Housing Authority of the

City of Lake Charles, Louisiana's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Housing Authority of the City of Lake Charles, Louisiana does business will be year 2000 ready.

The Authority's policy is to prepare its financial statements on the basis of accounting practices prescribed or permitted by the Department of Housing and Urban Development. These practices differ in some respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. This report is intended solely for filing with the Department of Housing and Urban Development and is not intended for any other purpose.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and surplus of the Housing Authority of the City of Lake Charles, Louisiana as of September 30, 1998, and the results of its operations, cash flows and changes in its surplus for the year then ended, on the basis of accounting which has been prescribed by the U.S. Department of Housing and Urban Development.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 1999, on our consideration of the Housing Authority of the City of Lake Charles, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary data included in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of The Housing Authority of the City of Lake Charles, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*McElroy, Quirk & Burch*

Lake Charles, Louisiana  
March 11, 1999

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

BALANCE SHEET  
September 30, 1998

ASSETS	Annual Contributions Contract				Totals
	FW-1132	FW-2074	FW-2228V	Management Account	(Memorandum Only)
Cash-Schedule 2	\$ 368,136	\$ 427,218	\$ 614,414	\$ 130,796	\$ 1,540,564
Accounts receivable*	70,234	421,375	4,502	4,424	500,535
Investments - general fund	1,418,473	482,247	307,084	198,196	2,406,000
Debt amortization fund	677,856	-	-	-	677,856
Deferred charges	100,984	14,232	5,048	5,050	125,314
Land, structures and equipment	<u>32,768,559</u>	<u>173,790</u>	<u>15,528</u>	<u>3,092,094</u>	<u>36,049,971</u>
Total assets	<u>\$ 35,404,242</u>	<u>\$ 1,518,862</u>	<u>\$ 946,576</u>	<u>\$ 3,430,560</u>	<u>\$ 41,300,240</u>
 <u>LIABILITIES AND SURPLUS</u>					
Accounts payable	\$ 334,780	\$ 461,220	\$ 570,763	\$ 42,844	\$ 1,409,607
Notes payable	989,450	-	-	137,783	1,127,233
Accrued liabilities	4,476,353	428,164	131,892	33,993	5,070,402
Fixed liabilities	<u>7,100,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,100,167</u>
Total liabilities	12,900,750	889,384	702,655	214,620	14,707,409
Surplus - Exhibit C(3)	<u>22,503,492</u>	<u>629,478</u>	<u>243,921</u>	<u>3,215,940</u>	<u>26,592,831</u>
Total liabilities and surplus	<u>\$ 35,404,242</u>	<u>\$ 1,518,862</u>	<u>\$ 946,576</u>	<u>\$ 3,430,560</u>	<u>\$ 41,300,240</u>

\* Tenant accounts receivable for FW-1132, \$15,626

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF INCOME AND EXPENSES - PHA OWNED HOUSING  
Year Ended September 30, 1998

Annual Contributions Contract FW-1132

Operating Income

Dwelling rental	\$ 1,275,906
Excess utilities	<u>21,390</u>
Total rental income	1,297,296
Interest on general fund investments	72,481
Other income	<u>1,472</u>
Total operating income	<u>1,371,249</u>

Operating Expenses

Administration	418,194
Tenant services	68,328
Utilities	457,900
Ordinary maintenance and operation	717,044
Protective services	36,510
General expense	532,715
Non-routine maintenance	<u>7,511</u>
Total operating expenses	<u>2,238,202</u>
Net operating (loss)	<u>(866,953)</u>

Other Charges (Credits)

Prior year adjustments	1,786
Interest on notes and bonds payable	128,077
Loss from disposition of nonexpendable equipment	<u>17,637</u>
Total other charges	<u>147,500</u>
Net (loss) - Exhibit C(1)	<u>\$ (1,014,453)</u>

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF INCOME AND EXPENSES - HOUSING ASSISTANCE PAYMENTS PROGRAM  
Year Ended September 30, 1998

Project LA 48-E004-001-008/011-013

Annual Contributions Contract FW-2074

Operating Income

Interest	\$ 12,484
Management fees	<u>25,818</u>
Total operating income	<u>38,302</u>

Operating Expenses

Administration	134,449
Tenant services	9,104
Utilities	3,800
Ordinary maintenance and operation	37,956
General	70,735
Housing assistance payments	<u>3,228,384</u>
Total operating expenses	<u>3,484,428</u>
Net (loss) - Exhibit C(1)	<u>\$ (3,446,126)</u>

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF INCOME AND EXPENSES - MODERATE REHAB  
Year Ended September 30, 1998

Project LA 48-K004-001/003

Annual Contributions Contract FW-2074 (MR)

Operating Income

Interest	\$ <u>6,276</u>
----------	-----------------

Operating Expenses

Administration	19,605
Ordinary maintenance and operation	7,379
General	10,403
Housing assistance payments	<u>348,203</u>
Total operating expenses	<u>385,590</u>
Net (loss) - Exhibit C(1)	<u>\$ (379,314)</u>



HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF INCOME AND EXPENSES - VOUCHER PROGRAM  
Year Ended September 30, 1998

Project LA 48-V004-001/004

Annual Contributions Contract FW-2228V

Operating Income

Interest	\$ 16,676
Management fees	<u>9,467</u>
Total operating income	<u>26,143</u>

Operating Expenses

Administration	54,887
Ordinary maintenance and operation	20,190
General	31,954
Housing assistance payments	<u>1,039,474</u>
Total operating expenses	<u>1,146,505</u>
Net (loss) - Exhibit C(1)	<u>\$ (1,120,362)</u>

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF INCOME AND EXPENSES - MANAGEMENT ACCOUNT  
Year Ended September 30, 1998

Project LA 48-0048-003

Annual Contributions Contract Management Account

Operating Income

Dwelling rental	\$ 339,848
Office rental	12,000
Management fees	83,381
Interest	18,468
Other	<u>5,482</u>
Total operating income	<u>459,179</u>

Operating Expenses

Administration	28,209
Utilities	59,623
Ordinary maintenance and operation	209,382
General	<u>88,488</u>
Total operating expenses	<u>385,702</u>
Net operating income	73,477

Other Charges

Casualty loss	<u>18,422</u>
Net income - Exhibit C(1)	<u>\$ 55,055</u>

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF SURPLUS  
Year Ended September 30, 1998

<u>Unreserved Surplus</u>	<u>Annual Contributions Contract</u>			<u>Management Account</u>	<u>Totals (Memorandum Only)</u>
	<u>FW-1132</u>	<u>FW-2074</u>	<u>FW-2228V</u>		
Balance per audit September 30, 1997	\$ (27,912,408)	\$ (51,089,719)	\$ (9,582,861)	\$ 29,807	\$ (88,555,181)
Net income (loss) for year ended September 30, 1998:					
PHA owned housing - Exhibit B(1)	(1,014,453)	-	-	-	(1,014,453)
Housing Assistance Payment Program - Exhibit B(2)	-	(3,446,126)	-	-	(3,446,126)
Moderate Rehab- Exhibit B(3)	-	(379,314)	-	-	(379,314)
Voucher Program- Exhibit B(4)	-	-	(1,120,362)	-	(1,120,362)
Management Account - Exhibit B(5)	-	-	-	55,055	55,055
(Provision for) reduction of operating reserves for year ended September 30, 1998:					
PHA owned housing	(162,397)	-	-	-	(162,397)
Housing Assistance Payment Program	-	(127,406)	-	-	(127,406)
Moderate Rehab	-	(1,122)	-	-	(1,122)
Voucher Program	-	-	(14,987)	-	(14,987)
Management Account	-	-	-	(47,413)	(47,413)
Adjust project account. at September 30, 1997 per HUD	-	3,194,561	226,152	4	3,420,717

(continued on next page)

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF SURPLUS  
Year Ended September 30, 1998

	<u>Annual Contributions Contract</u>				<u>Totals (Memorandum Only)</u>
	<u>FW-1132</u>	<u>FW-2074</u>	<u>FW-2228V</u>	<u>Management Account</u>	
<u>Unreserved Surplus</u>					
(Provision for)					
reduction of project					
account-unfunded for					
year ended September					
30, 1998:					
Housing Assistance					
Payment Program	-	(1,420,161)	-	-	(1,420,161)
Moderate Rehab	-	(75,324)	-	-	(75,324)
Voucher Program	-	-	(345,634)	-	(345,634)
Balance September					
30, 1998	(29,089,258)	(53,344,611)	(10,837,692)	37,453	(93,234,108)
<u>Reserved Surplus</u>					
<u>Operating Reserve</u>					
<u>PHA Owned Housing</u>					
Balance September 30, 1997	977,332	-	-	-	977,332
Provision for (reduction					
of) operating reserves					
for year ended					
September 30, 1998	162,397	-	-	-	162,397
Balance September					
30, 1998	1,139,729	-	-	-	1,139,729
<u>Reserved Surplus</u>					
<u>Replacement Reserve</u>					
Balance September 30, 1997	357,295	-	-	-	357,295
Provision for replacement					
reserve for year ended					
September 30, 1998	70,258	-	-	-	70,258
Balance September					
30, 1998	427,553	-	-	-	427,553

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF SURPLUS  
Year Ended September 30, 1998

PHA Leased Housing Housing Assistance Payments Program, and Moderate Rehab	Annual Contributions Contract			Management Account	Totals (Memorandum Only)
	FW-1132	FW-2074	FW-2228V		
Balance September 30, 1997	-	327,710	226,186	3,051,074	3,604,970
Adjust project account at September 30, 1997 per HUD	-	(552)	(12,780)	-	(13,332)
Provision for operating reserves for year ended September 30, 1998	-	128,528	14,987	47,413	190,928
Balance September 30, 1998	-	455,686	228,393	3,098,487	3,782,566
Moderate Rehab and Housing Assistance Payments Program- Project Account-Unfunded					
Balance September 30, 1997	-	8,366,265	1,202,674	-	9,568,939
Adjust project account at September 30, 1997 per HUD	-	(3,194,009)	(213,372)	-	(3,407,381)
Provision for project account for year ended September 30, 1998	-	1,495,485	345,634	-	1,841,119
Balance September 30, 1998	-	6,667,741	1,334,936	-	8,002,677

(continued on next page)

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF SURPLUS  
Year Ended September 30, 1998

Cumulative HUD Contributions	Annual Contributions Contract			Management Account	Totals (Memorandum Only)
	FW-1132	FW-2074	FW-2228V		
Balance September 30, 1997	46,297,761	42,894,014	8,394,715	80,000	97,666,490
Annual contributions year ended September 30, 1998:					
PHA owned housing	428,032	-	-	-	428,032
Housing Assistance Payments Program	-	3,957,200	-	-	3,957,200
Voucher Program	-	-	1,136,349	-	1,136,349
Adjustments to annual contributions for PHA owned housing for year ended September 30, 1998	(1,060)	-	-	-	(1,060)
Close HUD grant funding to cumulative at September 30, 1998	2,145,347	-	-	-	2,145,347
Adjust project account at September 30, 1997 per HUD	-	(552)	(12,780)	-	(13,332)
Operating subsidies year ended September 30, 1998:					
PHA owned housing	<u>1,031,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,031,961</u>
Balance September 30, 1998	<u>49,902,041</u>	<u>46,850,662</u>	<u>9,518,284</u>	<u>80,000</u>	<u>106,350,987</u>

(continued on next page)

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF SURPLUS  
Year Ended September 30, 1998

	<u>Annual Contributions Contract</u>			<u>Management Account</u>	<u>Totals (Memorandum Only)</u>
	<u>FW-1132</u>	<u>FW-2074</u>	<u>FW-2228V</u>		
<u>Cumulative Donations</u>					
Balance September 30, 1997	123,427	-	-	-	123,427
Provision for operating reserves	-	-	-	-	-
Balance September 30, 1998	123,427	-	-	-	123,427
TOTAL SURPLUS - EXHIBIT A	<u>\$ 22,503,492</u>	<u>\$ 629,478</u>	<u>\$ 243,921</u>	<u>\$ 3,215,940</u>	<u>\$ 26,592,831</u>

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

STATEMENT OF CASH FLOWS  
Year Ended September 30, 1998

	<u>FW-1132</u>	<u>FW-2074</u>	<u>FW-2228V</u>	<u>Management Account</u>	<u>Totals (Memorandum Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (866,953)	\$(3,825,440)	\$(1,120,362)	\$ 73,477	\$ (5,739,278)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Changes in assets and liabilities:					
(Decrease) in notes payable	-	-	-	(21,897)	(21,897)
(Increase) decrease in accounts receivable	11,230	(415,339)	(1,353)	(3,302)	(408,764)
(Increase) decrease in deferred charges	(15,361)	635	221	2,461	(12,044)
(Increase) in debt amortization	(5,026)	-	-	-	(5,026)
Increase in accounts payable	104,364	279,440	248,266	17,946	650,016
Increase (decrease) in accrued expenses	5,895	414,457	125,954	(33,120)	513,186
Casualty loss	-	-	-	(18,422)	(18,422)
CASH FLOWS FROM INVESTING ACTIVITIES	(42,791)	(275,204)	(111,300)	93,293	(336,002)
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES					
Payments for capital acquisitions	(2,224,881)	(3,229)	(1,001)	(39,422)	(2,268,533)
Dispositions of capital equipment	(17,637)	-	-	-	(17,637)
HUD annual contributions	426,972	3,956,648	1,123,569	-	5,507,189
HUD grant funding	2,145,347	-	-	-	2,145,347
HUD operating subsidies	1,031,961	-	-	-	1,031,961
Payment for fixed liabilities	(285,593)	-	-	-	(285,593)
Payment for interest on fixed liabilities	(128,077)	-	-	-	(128,077)
Prior year adjustments	(1,786)	-	-	4	(1,782)
Provision for replacement reserve	70,258	-	-	-	70,258
Net increase in cash	207,922	131,968	263,994	71,018	674,902
CASH BEGINNING OF YEAR	<u>160,214</u>	<u>295,250</u>	<u>350,420</u>	<u>59,778</u>	<u>865,662</u>
CASH END OF YEAR	<u>\$ 368,136</u>	<u>\$ 427,218</u>	<u>\$ 614,414</u>	<u>\$ 130,796</u>	<u>\$ 1,540,564</u>



HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
September 30, 1998

1. Organization

The Housing Authority of the City of Lake Charles, Louisiana (the Authority) was incorporated April 25, 1940 under the authority of the Constitution and statutes of LSA:RS 40:381.

The Authority operates under the direction of a five man Board of Commissioners duly appointed by the Mayor of the City of Lake Charles for staggered five year terms. It is a primary legal entity and not a component unit of the City of Lake Charles or any other governmental unit.

Each program operated by the Authority receives federal financial assistance from the U.S. Department of Housing and Urban Development (HUD), and is subject to applicable laws and regulations. The operations of each fund are accounted for through a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Federal contributions are received and accounted for in the individual programs based upon the purposes for which they are to be spent.

A brief description of the various programs is as follows:

- A. Housing Authority Owned Rental Housing - Low Income Public Housing is owned by the Housing Authority of the City of Lake Charles, Louisiana, and the notes are held by the Federal Government. Low Income is defined by published entry in the Federal Register per SMSA areas. Tenants pay 30% of their adjusted income for such housing.
- B. Section 8 Public Owned Rental Housing - Section 8 Public Housing is a program designed to allow private homeowners to lease their houses to low income families. The rents are set by the Federal Government and published in the Federal Register. The tenants pay 30% of their adjusted income for such housing. The Housing Authority of the City of Lake Charles, Louisiana makes up the difference between the tenants' portion of the rent and the Fair Market Rent as subsidy to the homeowner. Section 8 has evolved into five programs:

## NOTES TO FINANCIAL STATEMENTS

- (1) Existing Housing
- (2) Moderate Rehab
- (3) Voucher
- (4) Recently Completed
- (5) Rental Rehab

- C. PHA Owned Rental Housing - PHA Owned Housing consists of units the Housing Authority of the City of Lake Charles, Louisiana has acquired through the Federal Home Loan Bank Affordable Housing Program. The basic Section 8 rules apply. The qualifications are the same income limits published in the Federal Register for Low Income Public Housing tenants. The tenants pay 30% of their adjusted income for such housing.
- D. Shelter Plus Care Housing - This program provides for housing for homeless individuals and families with special disabilities. The basic Section 8 rules apply.
- E. PHA Owned Rental Housing and Other Properties - This program consists of PHA owned housing units and other properties acquired through management fees and earnings. Fair rental values are established and charged for the housing units but low income guidelines do not apply.

### 2. Significant Accounting Policies

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Gross receipts are considered "measurable" when collected and are recognized as income at that time. Revenues susceptible to accrual include grants and entitlements.

No depreciation is reflected in the statement of revenues, expenses and changes in fund balance. Equipment is written off and charged to expense when it is determined to be unusable.

NOTES TO FINANCIAL STATEMENTS

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

The Governmental Accounting Standards Board (GASB) Statement Number 20 (effective for financial statements for periods beginning after December 15, 1993) provides guidance on accounting and financial reporting for proprietary fund types and allows proprietary fund types to choose one of two options in (FASB) after November 30, 1989. The Housing Authority of the City of Lake Charles has elected to use the first option for reporting its activities. This approach applies all GASB pronouncements and FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Changes to FASB statements and interpretations, APB opinions and ARBs issued after November 30, 1989, would not apply unless adopted by GASB.

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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total columns on the statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. Cash and Investments

At September 30, 1998, the Authority had cash and cash equivalents (book balances) as follows:

Demand deposits	\$ 1,540,564
Daily cash accumulation fund	227,994
Certificates of deposit	1,695,660
Federal and state notes and bonds	<u>480,400</u>
	3,944,618
Bond premiums	<u>1,946</u>
	<u>\$ 3,946,564</u>

NOTES TO FINANCIAL STATEMENTS

The Authority's demand deposits and certificates of deposit as of the balance sheet date are required to be covered by FSLIC or FDIC insurance and pledged securities. 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. The deposits at September 30, 1998 classified to give an indication of the level of risk assumed by the Authority are as follows:

September 30, 1998	<u>Demand Deposits</u>	<u>Daily Cash Accumulation Fund</u>	<u>Certificates of Deposit</u>
Carrying amount	<u>\$ 1,540,564</u>	<u>\$ 227,994</u>	<u>\$ 1,411,659</u>
Bank balances:			
a. Insured or collateralized with securities held by the entity or its agent in the entity's name	\$ 1,668,662	\$ 227,994	\$ 1,411,659
b. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name	-	-	-
c. Uncollateralized, including any securities held for the entity but not in the entity's name	<u>-</u>	<u>-</u>	<u>-</u>
Total bank balances	<u>\$ 1,668,662</u>	<u>\$ 227,994</u>	<u>\$ 1,411,659</u>

Following are investments of the Authority at year end categorized to give an indication of the level of risk assumed by the Authority. Category 1 includes investments that are insured or registered, or for which the securities are held by the Authority or its agent, in the name of the Authority. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the name of the Authority. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent, but not in the name of the Authority.

NOTES TO FINANCIAL STATEMENTS

September 30, 1998	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 284,000	\$ -	\$ -	\$ 284,000	\$ 284,591
U.S. Treasury bills	100,000	-	-	100,000	101,547
Federal National Mortgage Association	138,792	-	-	138,792	136,629
Federal Home Loan Mortgage Association	<u>241,608</u>	<u>-</u>	<u>-</u>	<u>241,608</u>	<u>242,834</u>
	<u>\$ 764,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 764,400</u>	<u>\$ 765,601</u>

4. Accounts Receivable

Accounts receivable balances are comprised as follows:

Intra-program	\$ 456,747
Accrued interest	17,070
Tenants	18,899
Miscellaneous	<u>7,819</u>
	<u>\$ 500,535</u>

5. Debt Amortization Fund

The balance in this account of \$677,856 reflects the anticipated contribution by HUD to cover annual payment of principal and interest on the debt service.

6. Deferred Charges

Deferred charges are comprised of the following:

Prepaid insurance	\$ 115,664
Material and supplies	<u>9,650</u>
	<u>\$ 125,314</u>

7. Land, Structures and Equipment

Property and equipment is accounted for under the modified accrual basis and is carried at cost on the balance sheet. Under the modified accrual basis no depreciation is reflected in the statement of revenues, expenses and changes in surplus. Equipment is written off and charged to expense when it is determined to be unusable.

NOTES TO FINANCIAL STATEMENTS

Changes in fixed assets during the current year are as follows:

	9-30-97			9-30-98
	<u>Cost</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u>
Land	\$ 860,302	\$ -	\$ -	\$ 860,302
Developmental costs	2,692,226	-	-	2,692,226
Buildings and equipment	29,849,194	2,278,528	17,637	32,110,085
Furniture	211,371	7,642	-	219,013
Vehicles	<u>168,345</u>	<u>-</u>	<u>-</u>	<u>168,345</u>
	<u>\$ 33,781,438</u>	<u>\$ 2,286,170</u>	<u>\$ 17,637</u>	<u>\$ 36,049,971</u>

8. Accounts Payable

Accounts payable balances are as follows:

Intra-program	\$ 456,747
Contract retainages	248,092
HUD	589,244
Tenants' deposits	105,118
Other	<u>10,406</u>
	<u>\$ 1,409,607</u>

The contract retainages of \$248,092 above apply against ongoing construction and repair contracts.

9. Notes Payable

The Authority is liable to HUD for administrative notes of \$989,450 and accrued interest thereon of \$377,307. The Authority is not required to make payment on this obligation.

The Authority is also liable to a financial institution for \$137,783 plus accrued interest at 7 1/2% for purchase of a thirty unit apartment complex. Principal and interest payments required on this note during the next five years are as follows:

1998	\$ 33,131
1999	33,131
2000	33,131
2001	33,131
2002	33,131

NOTES TO FINANCIAL STATEMENTS

10. Accrued Liabilities

The Authority is liable for accrued liabilities as follows:

Accrued interest:	
HUD administrative notes	\$ 377,307
HUD permanent notes	3,831,360
Debt service fund	13,159
FFB notes	<u>93,293</u>
	4,315,119
Payment in lieu of property tax	110,063
Accrued vacations payable	100,530
Prepaid annual contributions	539,002
Other	<u>5,688</u>
	<u>\$ 5,070,402</u>

11. Fixed Liabilities

The Authority is liable on long-term notes and bonds as follows:

Permanent notes - FFB	\$ 1,542,040
Permanent notes - HUD	4,830,012
New HA bond	<u>728,115</u>
	<u>\$ 7,100,167</u>

HUD has guaranteed through an annual contribution contract the bonded indebtedness to FFB. The Authority is not required to make payment on the HUD note of \$4,830,012.

Principal and interest payments required to be made on these notes during the next five years are as follows:

	<u>FFB Notes</u>	<u>HA Bond</u>
1998	\$ 167,981	\$ 295,350
1999	167,981	295,350
2000	167,981	65,550
2001	167,981	-
2002	167,981	-
Thereafter	1,473,690	-

## NOTES TO FINANCIAL STATEMENTS

### 12. Contingencies and Commitments

The Authority was contingently liable in the amount of \$44,031 for prior period rent overpayments. HUD reported that the Authority was alleged to have been giving the program's owners rent adjustment increases without written requests from the owners. The Authority was required to immediately cease this practice and comply fully with the requirements as per HUD Handbook 7420.3 Rev. 2, Chap. 3. The Development Division of the New Orleans office initiated the process of recapturing the funds as a result of the ineligible rent adjustment increases. The amount of questioned funds aggregated \$55,169 and as a consequence of the request by the New Orleans office, a law suit was filed by a property owner disputing the allegation that excessive rent was paid. This lawsuit was dismissed by the United States District Court by a memorandum ruling on April 9, 1991. The New Orleans office has subsequently reduced the questioned funds amount to \$44,031 and proposed several alternate options for payment. The property owner, while reserving the right to continue efforts to resolve the issue administratively or by litigation, has agreed to one of the options offered whereby the amount is to be repaid through reduced rental payments over the remaining life of the contract. As of the audit date, \$27,904 of this amount has been recovered.

### 13. Retirement Plan

Employees of the Authority are covered by the social security system. Additionally, employees are covered by a tax deferred retirement and savings program which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual's accounts are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Under the plan the Authority contributes 8.5% of the employee's basic monthly salary to the plan with the provision that the employee is required to contribute a minimum of 6%. Employees become fully vested after five years participation in the plan. Contributions to the plan by the Authority amounted to approximately \$79,900 during the year.



## NOTES TO FINANCIAL STATEMENTS

### 14. Management Agreement

The Authority entered into a management agreement with Chateau du Lac Limited Partnership on November 24, 1981 whereby the Authority will have the duty of maintaining, servicing, repairing, promoting, publicizing, operating, and managing an apartment complex owned by Chateau du Lac Limited Partnership. The agreement calls for a management fee, from occupancy date, of 4 1/2% of gross rental income. Management fee income for the year ended September 30, 1998 was \$83,381.

### 14. Year 2000 Compliance (Unaudited)

The Housing Authority of the City of Lake Charles has recognized the potential for problems that may be presented for certain technological systems on and after January 1, 2000. A strategic plan has been developed to address year 2000 compliance modifications to technical systems owned and used by the Authority. Installation and testing is to be completed during 1999. This note is intended to comply with the requirements of the Year 2000 Information and Readiness Disclosure Act (Public Law 105-271). The Year 2000 plan described above is unaudited.

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
Year Ended September 30, 1998

	<u>CFDA Number</u>	<u>Grant Number</u>
Federal Assistance:		
Department of Housing and Urban Development:		
PHA Owned Housing (Notes 1 and 2)	14.850	FW-1132
Modernization LA 86-04 (LA 4-905):	14.852	FW-1132
1995 Comp Grant		
1996 Comp Grant		
1997 Comp Grant		
PHA Leased Housing	14.156	FW-2074
PHA Voucher Program	14.177	FW-2228V
Shelter Plus Care	14.238	

NOTES:

1. The Housing Authority of the City of Lake Charles, Louisiana is indebted to the Department of Housing and Urban Development for \$5,819,461 at September 30, 1998. Also, the Department of Housing and Urban Development has guaranteed through the Annual Contribution Contract the Housing Authority of the City of Lake Charles, Louisiana's bonded indebtedness. This bonded indebtedness was \$989,450 at September 30, 1998.
  
2. The Housing Authority of the City of Lake Charles, Louisiana is indebted to FFB for \$1,542,041 at September 30, 1998.

10-1-97 to 9-30-98		Cumulative	
Grants		Grants	
<u>Receipts</u>	<u>Expenditures</u>	<u>Receipts</u>	<u>Expenditures</u>
\$ 1,304,140	\$ 2,238,202	\$ -	\$ -
1,071,846	1,116,908	1,485,936	1,535,872
952,336	1,002,774	1,120,851	1,175,592
121,166	122,011	121,166	122,011
3,957,200	3,870,018	-	-
1,136,349	1,146,505	-	-
71,080	71,080	135,408	135,408

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES  
LAKE CHARLES, LOUISIANA

ANALYSIS OF GENERAL FUND CASH BALANCE  
Year Ended September 30, 1998

Composition <u>Before Adjustments</u>	<u>Annual Contributions Contract</u>			<u>Management Account</u>	<u>Totals (Memorandum Only)</u>
	<u>FW-1132</u>	<u>FW-2074</u>	<u>FW-2228V</u>		
Net operating receipts retained:					
Net operating reserves:					
PHA owned housing	\$ 1,139,729	\$ -	\$ -	\$ -	\$ 1,139,729
PHA leased housing	-	455,686	-	-	455,686
Voucher program	-	-	228,393	-	228,393
Management account	-	-	-	3,098,487	3,098,487
Security deposits	89,882	-	-	15,236	105,118
Excess (deficiency) of development and modernization funds	(105,469)	-	-	(2,836,857)	(2,942,326)
Provision for replacement reserve	<u>427,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>427,553</u>
	1,551,695	455,686	228,393	276,866	2,512,640
<u>Adjustments</u>					
Expenses/costs not paid:					
Accounts payable-HUD	-	439,541	149,703	-	589,244
Accounts payable-other	1,911	19,103	421,060	22,502	464,576
Accrued payments in lieu of taxes	81,651	-	-	28,412	110,063
Contract retentions	242,986	-	-	5,106	248,092
Accrued annual leave	79,583	11,372	3,995	5,580	100,530
Income not received:					
Accounts receivable-tenants	(15,625)	-	-	(3,274)	(18,899)
Accounts receivable-other	(44,753)	(411,547)	-	-	(456,300)
Accrued interest	<u>(9,855)</u>	<u>(3,749)</u>	<u>(2,316)</u>	<u>(1,150)</u>	<u>(17,070)</u>
General fund cash available	1,887,593	510,406	800,835	334,042	3,532,876
General fund cash:					
Invested	(1,418,473)	(482,247)	(307,084)	(198,196)	(2,406,000)
Prepaid expenses	(91,334)	(14,232)	(5,048)	(5,050)	(115,664)
Inventories-materials	(9,650)	-	-	-	(9,650)
Prepaid annual contributions	<u>-</u>	<u>413,291</u>	<u>125,711</u>	<u>-</u>	<u>539,002</u>
General fund cash - Exhibit A	<u>\$ 368,136</u>	<u>\$ 427,218</u>	<u>\$ 614,414</u>	<u>\$ 130,796</u>	<u>\$ 1,540,564</u>

# McELROY, QUIRK & BURCH

*A Professional Corporation • Certified Public Accountants • Since 1925*  
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070  
318 433-1063 • Fax 318 436-6618 • E-mail: mqb@iamerica.net

Carl W. Comeaux, CPA  
Barbara Hutson Gonzales, CPA  
Judson J. McCann Jr., CPA  
Martin L. Chechovsky, CPA, CFE  
Robert M. Gani, CPA  
Tina L. Demarest, CPA

Mollie C. Broussard, CPA



Charles B. Quirk, CPA  
Oray J. Woods Jr., CPA  
Robert E. Cargile, CPA  
William A. Mancuso, CPA

Charles L. McElroy, CPA (1917-1997)  
Patrick J. Reddin, CPA (1926-1995)  
Frank D. Burch, CPA (1921-1991)

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners  
Housing Authority of the City  
of Lake Charles  
Lake Charles, Louisiana

We have audited the financial statements of the Housing Authority of the City of Lake Charles as of and for the year ended September 30, 1998, and have issued our report thereon dated March 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Housing Authority of Lake Charles' 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 an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of Lake Charles' 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. 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### Status of Prior Audit Findings

As reported in the prior audit, the U.S. Department of Housing and Urban Development reported that the Housing Authority was alleged to have been giving the program's owners rent adjustment increases without written requests from the owners. The Housing Authority was required to immediately cease this practice and comply fully with the requirements as per HUD Handbook 7420.3 Rev. 2, Chap. 3. The Development Division of the New Orleans office initiated the process of recapturing the funds as a result of the ineligible rent adjustment increases. The amount of questioned funds aggregated \$55,169 and as a consequence of the request by the New Orleans office, a law suit was filed by a property owner disputing the allegation that excessive rent was paid. This lawsuit was dismissed by the United States District Court by a memorandum ruling on April 9, 1991. The New Orleans office has subsequently reduced the questioned funds amount to \$44,031 and proposed several alternate options for payment. The property owner, while reserving the right to continue efforts to resolve the issue administratively or by litigation, has agreed to one of the options offered whereby the amount is to be repaid through reduced rental payments over the remaining life of the contract. As of the audit date, \$27,904 of this amount has been recovered.

#### Findings of This Audit

We identified no material weaknesses in internal control and no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the U.S. Department of Housing and Urban Development, management and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

*McElroy, Quirk & Burch*

Lake Charles, Louisiana  
March 11, 1999

# McELROY, QUIRK & BURCH

*A Professional Corporation • Certified Public Accountants • Since 1925*  
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070  
318 433-1063 • Fax 318 436-6618 • E-mail: mqb@iamerica.net

Carl W. Comeaux, CPA  
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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners  
Housing Authority of the City  
of Lake Charles  
Lake Charles, Louisiana

### Compliance

We have audited the compliance of the Housing Authority of the City of Lake Charles, 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 September 30, 1998. The Housing Authority of Lake Charles' major federal programs are identified in the schedule of expenditures of federal awards. 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 Lake Charles' management. Our responsibility is to express an opinion on the Housing Authority of Lake Charles' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) issued by the U.S. Department of Housing and Urban Development; 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 Lake Charles' compliance with those requirements and performing such other procedures as we considered 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 Lake Charles' compliance with those requirements.

In our opinion, the Housing Authority of Lake Charles, 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 September 30, 1998.

Internal Control Over Compliance

The management of the Housing Authority of Lake Charles is responsible for establishing and maintaining effective 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 Lake Charles' 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.

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.

This report is intended for the information of the U.S. Department of Housing and Urban Development, management, and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

*Ms Elwy, Smith & Buch*

Lake Charles, Louisiana  
March 11, 1999



HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended September 30, 1998

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified  
 Internal control over financial reporting:  
     Material weakness identified? \_\_\_\_\_Yes      X  No  
     Reportable condition identified not considered  
     to be material weakness? \_\_\_\_\_Yes      X  None reported  
 Noncompliance material to financial statements  
 noted? \_\_\_\_\_Yes      X  No

Federal Awards

Internal control over major programs:  
     Material weakness identified? \_\_\_\_\_Yes      X  No  
     Reportable condition identified not considered  
     to be material weakness? \_\_\_\_\_Yes      X  None reported  
 Type of auditor's report issued on compliance  
 for major programs: Unqualified  
 Any audit findings disclosed that are required  
 to be reported in accordance with Circular  
 A-133, Section .510(a)? \_\_\_\_\_Yes      X  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.850	PHA Owned Housing
14.852	Modernization LA 86-04 (LA 4-905)
14.156	PHA Leased Housing
14.177	PHA Voucher Program

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$ 300,000  
 Auditee qualified as low-risk auditee? \_\_\_\_\_Yes      X  No

(continued on next page)

HOUSING AUTHORITY OF THE CITY OF LAKE CHARLES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 1998

(Continued)

SECTION I - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.