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COMPONENT UNIT FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

CITY COURT OF LAKE CHARLES,
LOUISIANA, A COMPONENT UNIT OF
THE CITY OF LAKE CHARLES, LOUISIANA

December 31, 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 ~~AUG 04 1999~~

Milford, Hilliard & Farrar
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

J. T. MILFORD, JR., C.P.A. (Ret.)
FINLEY L. HILLIARD, C.P.A.
KENNETH M. FARRAR, C.P.A.
NANCY WONDERLICH KOONCE, C.P.A.*

1304 ENTERPRISE BLVD., SUITE A
LAKE CHARLES, LOUISIANA 70601
TELEPHONE (318) 433-8554

*CERTIFIED VALUATION ANALYST

June 24, 1999

Honorable Thomas P. Quirk
Honorable John S. Hood
Judges of City Court of Lake Charles
Lake Charles, Louisiana

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have audited the accompanying component unit financial statements as listed in the table of contents of the City Court of Lake Charles, Louisiana, a component unit of the City of Lake Charles, Louisiana, as of and for the year ended December 31, 1998. These component unit financial statements are the responsibility of the City Court's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The component unit financial statements referred to above present fairly, in all material respects, the financial position of the City Court of Lake Charles, Louisiana, a component unit of the City of Lake Charles, Louisiana, as of December 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Milford, Hilliard & Farrar

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City Court of Lake Charles, Louisiana, a Component Unit
of the City of Lake Charles, Louisiana

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 1998

	<u>Governmental</u> <u>Fund Type</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Account</u> <u>Group</u>	<u>Total</u> <u>(Memorandum</u> <u>Only)</u>
	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Agency</u> <u>Fund</u>	<u>General</u> <u>Fixed</u> <u>Assets</u>	
ASSETS					
Cash (note A6)	\$ 113,017	\$ 214,602	\$ 280,853		\$ 608,472
Equipment (notes A2 & A4)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	\$ 209,760	<u>209,760</u>
TOTAL ASSETS	\$ <u>113,017</u>	\$ <u>214,602</u>	\$ <u>280,853</u>	\$ <u>209,760</u>	\$ <u>818,232</u>
LIABILITIES					
Retirement plan payable	\$ 929				\$ 930
Payroll taxes payable	1				1
Due to other agencies	2,648				2,648
Due to City of Lake Charles	31,673				31,673
Due to City Marshall	3,670				3,670
Fee collected for State Treasury Court	397				398
Due to Calcasieu Parish Police Jury	18,080				18,080
Deposits held for disposition of civil cases, claims			\$ 280,853		<u>280,853</u>
TOTAL LIABILITIES	<u>57,398</u>		<u>280,853</u>		<u>338,253</u>
EQUITY					
Investment in general fixed assets (notes A2 & A4)				\$ 209,760	209,760
Fund balance - unreserved and undesignated	<u>55,619</u>	<u>214,602</u>			<u>270,219</u>
TOTAL EQUITY	<u>55,619</u>	<u>214,602</u>		<u>209,760</u>	<u>479,979</u>
TOTAL LIABILITIES AND EQUITY	\$ <u>113,017</u>	\$ <u>214,602</u>	\$ <u>280,853</u>	\$ <u>209,760</u>	\$ <u>818,232</u>

The accompanying notes are an integral part of this statement.

City Court of Lake Charles, Louisiana, a Component Unit
of the City of Lake Charles, Louisiana

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES

For the year ended December 31, 1998

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General Fund</u>	<u>Special Revenue Fund</u>	
Revenues:			
Court costs and fines	\$ 163,439		\$ 163,439
Miscellaneous income		\$ 4,699	4,699
Total revenues	<u>163,439</u>	<u>4,699</u>	168,138
Other financing sources:			
Operating transfers in (note D)		<u>140,793</u>	<u>140,793</u>
Total revenues and other financing sources	163,439	145,492	308,931
Expenditures:			
Current			
Accounting and legal	4,528		4,528
Confinement center (note A4)	67,800		67,800
Donations and gifts	979		979
Dues and subscriptions	2,749		2,749
Equipment lease (note C)	7,064		7,064
Janitorial and pest control	420		420
Maintenance	25,023		25,023
Office supplies	8,534	4,434	12,968
Office expense	713	12,226	12,939
Payroll taxes	1,039		1,039
Publications	80		80
Retirement (note B)	10,940		10,940
Salaries	13,117	86,622	99,739
Travel and seminars	19,391		19,391
Capital outlay (notes A2 and A4)	<u>36,094</u>	<u>939</u>	<u>36,094</u>
Total expenditures	<u>198,471</u>	<u>104,221</u>	<u>301,753</u>
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(35,032)	41,271	7,178
Fund balances at beginning of year	<u>90,651</u>	<u>173,331</u>	<u>263,982</u>
Fund balances at end of year	\$ <u>55,619</u>	\$ <u>214,602</u>	\$ <u>271,160</u>

The accompanying notes are an integral part of this statement.

City Court of Lake Charles, Louisiana, a Component Unit
of the City of Lake Charles, Louisiana

SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL

For the year ended December 31, 1998

	<u>Special Revenue Fund</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Miscellaneous income	\$ 7,300	\$ 4,699	\$(2,601)
Other financing sources:			
Operating transfers in (note D)	<u>122,168</u>	<u>140,793</u>	<u>18,625</u>
Total revenues and other financing sources	129,468	145,492	16,024
Expenditures:			
Current			
Maintenance	6,700	-0-	(6,700)
Office supplies	2,000	4,434	2,434
Office expense	5,045	12,226	7,181
Salaries	82,168	86,622	4,454
Travel and seminars	3,000	-0-	(3,000)
Capital outlay (notes A2 and A4)	<u>8,000</u>	<u>939</u>	<u>(7,061)</u>
Total expenditures	<u>106,913</u>	<u>104,221</u>	<u>(2,692)</u>
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	22,555	41,271	18,716
Fund balance at beginning of year	<u>173,331</u>	<u>173,331</u>	<u>-0-</u>
Fund balance at end of year	\$ <u>195,886</u>	\$ <u>214,602</u>	\$ <u>18,716</u>

The accompanying notes are an integral part of this statement.

City Court of Lake Charles, Louisiana, A Component Unit
of the City of Lake Charles, Louisiana

NOTES TO FINANCIAL STATEMENTS

December 31, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies.

1. Financial Reporting Entity

This report includes all funds and account groups which are relevant to the operations of City Court of Lake Charles, Louisiana (City Court), a component unit of the City of Lake Charles, Louisiana. The City provides the facilities. However, the City Court is staffed by independently elected officials. As of March, 1978, the City assumed the responsibility for the General Fund.

2. Fund Accounting

The accounts of the City Court are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which includes its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following funds and groups of accounts are used by the City Court:

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the City Court. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Fiduciary Fund Types

Agency Fund

The Agency Fund is used to account for assets held by the City Court as an agent for individuals, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Continued

City Court of Lake Charles, Louisiana, A Component Unit
of the City of Lake Charles, Louisiana

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Fund Accounting - continued

General Fixed Assets Account Group

General Fixed Assets (GFA)

The General Fixed Asset Account Group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost. No depreciation is recorded on general fixed assets.

3. Budgets

The City of Lake Charles approves a budget for the City Court General Fund. This budget includes all expenditures made by the City of Lake Charles and the General Fund with no separation between the two governmental agencies. There is not a separate budget available for the General Fund of the City Court of Lake Charles.

Formal budgetary integration is employed during the year for the Special Revenue Fund and adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget amounts, shown in the financial statements, are the final authorized amounts as revised during the year.

4. Fixed Assets

Fixed assets are charged to the capital outlays expenditures account when purchased. Most of the fixed assets of the City Court of Lake Charles are included in the fixed asset records of the City of Lake Charles, although the Judges of the City Court have purchased a new computer system for the City Court and have decided to account for this equipment through City Court's General Fixed Assets Account Group.

In 1995 the City Court of Lake Charles agreed with the City of Lake Charles and the Ward Three Marshall to operate a Correctional Center for the City of Lake Charles. Effective November 1, 1995 the \$10 court cost being collected by the City Court is remitted to the Ward Three City Marshall, on a monthly basis, and is being used to pay all the operating expenses, except utilities, of the City of Lake Charles Correctional Center. The fixed assets of the Correctional Center are included in the fixed asset records of the City of Lake Charles and the operating cost is an expense of the City Court of Lake Charles.

Continued

City Court of Lake Charles, Louisiana, A Component Unit
of the City of Lake Charles, Louisiana

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenue and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Revenues from fines are not susceptible to accrual because generally they are not measurable until received in cash.

6. Cash

At December 31, 1998 the balances of the City Court's deposits for the General Fund, Special Revenue Fund, and Agency Fund were \$113,017, \$214,602 and \$280,853 respectively. The balances were fully insured by federal depository insurance.

7. Total Column on Combined Statements - Overview

The total columns on the combined statements are captioned "Memorandum Only" indicating that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

8. Year 2000 Compliance (Unaudited)

Time and space saving programming decisions made in prior years resulted in two-digit computer codes that may not correctly recognize "00" as the year 2000. Serious processing error or system failure could result. To prevent this error, computer systems and equipment must be reprogrammed or replaced to make them year 2000 compliant.

Continued

City Court of Lake Charles, Louisiana, A Component Unit
of the City of Lake Charles, Louisiana

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Year 2000 Compliance (Unaudited)

The City Court is not significantly dependent on computerized systems for essential operations or to provide services to citizens.

NOTE B - DEFINED BENEFIT PENSION PLAN

The two city court judges of the City Court of Lake Charles, Louisiana participate in the Louisiana State Employees Retirement System (System), a multiple employer, public employee retirement system (PERS). The System is a statewide public retirement system for the benefit of state employees, which is administered and controlled by a separate board of trustees. For the year ended December 31, 1998, the City Court's total payroll was \$99,739, and its payroll covered by the System was approximately \$86,622.

Both judges are eligible to participate in the System. Benefits vest with ten years of service. At retirement age, employees are entitled to annual benefits equal to 2.5% of their highest consecutive 36 months average salary multiplied by their years of credited service plus \$300 for employees hired before July 1, 1986. Vested employees may retire at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. The System also provides death and disability benefits. Benefits are established by state statute.

Covered employees were required by state statute to contribute 11.5% of gross salary to the Plan. The City Court added a 14.0% contribution for the period January 1, 1998 through June 30, 1998 and a 15.0% contribution for the period July 1, 1998 through December 31, 1998.

Contribution requirements to the System are set by Statute and differ from the contribution requirement determined using actuarial methods. The amount of contributions made during the year ended June 30, 1998, from employees and employers was \$129,724,456 and \$219,680,934, respectively, for a total contribution of \$349,405,390.

The actuarially determined annual employer-contribution recommended by the System's actuary to cover normal cost for the year ended June 30, 1998, using the Projected Unit Credit cost method was approximately \$221,933,246.

Continued

City Court of Lake Charles, Louisiana, A Component Unit
of the City of Lake Charles, Louisiana

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1998

NOTE B - DEFINED BENEFIT PENSION PLAN - (CONTINUED)

The statutorily required contribution by the City Court for the year ended December 31, 1998, was \$21,107, which consisted of \$10,940 as the employer contribution and \$10,167 from the covered employees. The actual contribution made to the System by the Board was \$21,107, which consisted of \$10,940 as the employer contribution and \$10,167 as the employees' contributions.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increase and step-rated benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligations for individual employers. As of June 30, 1998, the pension benefit obligation is \$6,953,096,000 and the value of the System's assets is \$5,067,795,000 leaving an unfunded pension benefit obligation of \$1,885,301,000.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1998, component unit financial report. Benefits granted by the System are guaranteed by the State of Louisiana under the 1974 Louisiana Constitution.

NOTE C - OPERATING LEASE

City Court of Lake Charles currently leases a copy machine from LA Office Systems. Monthly payments for the year ended December 31, 1998 totaled \$7,064.

NOTE D - OPERATING TRANSFERS

Louisiana Revised Statutes mandate fees to be assessed to each claim filed through the City Court Civil Section. The Judges are legally entitled to a portion of these fees. Louisiana Revised Statute 13:1874.1 limits the amount of salary legally of a City Court Judge to that not exceeding a District Court Judge of the Judicial District in which the City Court is located. Because the fees assessed amount to greater than the judges' salary expended, an overage has been created. The overage can be used by the judges as they deem proper, as long as the expenditures from the overage are not direct or indirect compensation to the judges. Once the fee is assessed and collected in the Agency Fund it is transferred to the Special Revenue Fund where the judges' salaries and retirement payments are expended.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL
STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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NANCY WONDERLICH KOONCE, C.P.A.*

1304 ENTERPRISE BLVD., SUITE A
LAKE CHARLES, LOUISIANA 70601
TELEPHONE (318) 433-8554

*CERTIFIED VALUATION ANALYST

June 24, 1999

Honorable Thomas P. Quirk
Honorable John S. Hood
Judges of City Court of Lake Charles
Lake Charles, Louisiana

We have audited the component unit financial statements of City Court of Lake Charles, Louisiana, a component unit of the City of Lake Charles, Louisiana, as of and for the year ended December 31, 1998 and have issued our report thereon dated June 24, 1999.

We have conducted our audit in accordance with generally accepted auditing standards and 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 component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of City Court of Lake Charles, Louisiana, for the year ended December 31, 1998, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of City Court of Lake Charles, Louisiana, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

1. Cash receipts/revenues and receivables
2. Cash disbursements/expenditures
3. Payroll

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

Because of the entity's size, it is not feasible to segregate duties to achieve effective internal accounting control. Therefore, the audit was performed more efficiently by performing substantive tests as no reliance was placed on internal control.

We noted the following which require corrective action by management:

- 1) There is an absence of control techniques considered appropriate for certain accounting activities. Specifically, the City Court of Lake Charles has not established a written travel policy. Lack of a written policy could lead to abuses within this area.

Management has stated that a written travel policy will be adopted and will be monitored to ensure strict compliance.

- 2) There is an absence of a sufficient level of control consciousness within the organization. Specifically, the City Court of Lake Charles is reimbursing expenditures charged on credit cards without obtaining the appropriate receipts or invoices as substantiation. This practice could lead to improper expenditures or misclassification of expenditures.

Management intends to abolish the practice of reimbursing credit card expenditures and will ensure that all expenditures are properly documented and approved in advance.

There was no prior year findings requiring corrective action.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

This report is intended for the information of management and the State of Louisiana Legislative Auditor. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Millford, Hilliard & Orr

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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NANCY WONDERLICH KOONCE, C.P.A.*

1304 ENTERPRISE BLVD., SUITE A
LAKE CHARLES, LOUISIANA 70601
TELEPHONE (318) 433-8554

*CERTIFIED VALUATION ANALYST

June 24, 1999

Honorable Thomas P. Quirk
Honorable John S. Hood
Judges of City Court of Lake Charles, Louisiana
Lake Charles, Louisiana

We have audited the component unit financial statements of the City Court of Lake Charles, Louisiana, a component unit of the City of Lake Charles, Louisiana, as of and for the year ended December 31, 1998, and have issued our report thereon dated June 24, 1999.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the City Court of Lake Charles, Louisiana, is the responsibility of the City Court of Lake Charles, Louisiana, management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the City Court compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the City Court of Lake Charles, Louisiana, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City Court had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the State of Louisiana Legislative Auditor. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Milford, Hilliard & Farrar