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**TOWN OF WELSH, LOUISIANA
ANNUAL FINANCIAL REPORT
MAY 31, 2004**

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Release Date 12-8-04

TOWN OF WELSH, LOUISIANA

ANNUAL FINANCIAL REPORT
Year Ended May 31, 2004

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TOWN OF WELSH, LOUISIANA

May 31, 2004

MAYOR

The Honorable Jimmy Cormier

BOARD OF ALDERMEN

Allen Ardoin
Kent Daniel
Charles Drake

Carolyn Louviere
Carson Watkins

LEGAL COUNSEL

Richard M. Arceneaux

TOWN CLERK

Linda LeBlanc

McELROY, QUIRK & BURCH

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Carl W. Comeaux, CPA
Barbara Hutson Gonzales, CPA
Martin L. Chebotsky, CPA, CFE
Robert M. Gani, CPA, MT
Mollie C. Broussard, CPA



Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFP™
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Otray J. Woods Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the accompanying general purpose financial statements of the Town of Welsh, Louisiana, and the combining, individual fund and account group financial statements of the Town as of May 31, 2004, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Welsh, Louisiana as of May 31, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining, individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Town of Welsh, Louisiana at May 31, 2004, and the results of operations of such funds and the cash flows of the individual proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated July 26, 2004, on our consideration of the Town of Welsh'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 of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

M^e Elroy, Quirk & Burch

Lake Charles, Louisiana
July 26, 2004

COMBINED STATEMENTS - OVERVIEW
("LIFTABLE" GENERAL PURPOSE
FINANCIAL STATEMENTS)

TOWN OF WELSH, LOUISIANA

COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS

May 31, 2004

With Comparative Totals for May 31, 2003

<u>ASSETS AND OTHER DEBITS</u>	<u>Governmental Fund Type</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Cash and cash equivalents	\$ 26,725	\$ -	\$ 143,732	\$ 46,535
Investments	334,855	59,378	371,596	134,500
Receivables:				
Taxes	1,243	-	-	-
Accounts	42,149	-	-	-
Estimated uncollectibles and allowances	-	-	-	-
Unbilled accounts	-	-	-	-
Due from other funds	550,856	80,685	21	-
Accrued interest	-	-	-	-
Inventory, at cost	-	-	-	-
Prepaid expenses	-	-	-	-
Other assets	-	-	-	-
Restricted assets:				
Cash	-	-	-	-
Investments	1,000,000	-	-	-
Property, plant and equipment, net	-	-	-	-
Bond issue cost, net	-	-	-	-
Amount to be provided for retirement of general long- term debt	-	-	-	-
 Total assets	<u>\$ 1,955,828</u>	<u>\$ 140,063</u>	<u>\$ 515,349</u>	<u>\$ 181,035</u>

Proprietary Fund Type Enterprise	Account Group		Totals (Memorandum Only)	
	General Fixed Assets	General Long-Term Debt	2004	2003
	\$ 62,689	\$ -	\$ -	\$ 279,681
54,436	-	-	954,765	1,339,922
-	-	-	1,243	515
339,278	-	-	381,427	389,660
(82,305)	-	-	(82,305)	(55,868)
59,900	-	-	59,900	62,500
152,918	-	-	784,480	512,740
2,284	-	-	2,284	2,284
96,228	-	-	96,228	94,632
5,085	-	-	5,085	7,955
637	-	-	637	637
29,107	-	-	29,107	25,137
776,847	-	-	1,776,847	1,550,095
6,515,010	3,404,079	-	9,919,089	9,858,359
15,059	-	-	15,059	18,603
-	-	1,014,753	1,014,753	1,137,277
<u>\$ 8,027,173</u>	<u>\$ 3,404,079</u>	<u>\$ 1,014,753</u>	<u>\$ 15,238,280</u>	<u>\$ 15,175,904</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA

COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS
 May 31, 2004
 With Comparative Totals for May 31, 2003
 (Continued)

<u>LIABILITIES</u>	<u>Governmental Fund Type</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Bank overdraft	\$ -	\$ -	\$ -	\$ 19,083
Current portion of long-term debt	-	-	-	-
Accounts payable	68,827	167	-	12,275
Accrued liabilities	16,532	-	-	-
Due to other funds	53,952	191	-	56,914
Deferred paving assessments	-	-	-	-
Long-term debt:				
Revenue bonds payable	-	-	-	-
General obligation bonds	-	-	-	-
Paving certificates	-	-	-	-
Capital leases	-	-	-	-
Payable from restricted assets	-	-	-	-
Total liabilities	<u>139,311</u>	<u>358</u>	<u>-</u>	<u>88,272</u>
 <u>FUND EQUITY AND OTHER CREDITS</u>				
Contributed capital	-	-	-	-
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved	-	-	-	-
Unreserved:				
Undesignated	-	-	-	-
Fund balance:				
Reserved	1,000,000	-	515,349	92,763
Unreserved:				
Undesignated	<u>816,517</u>	<u>139,705</u>	<u>-</u>	<u>-</u>
Total retained earnings/fund balance	<u>1,816,517</u>	<u>139,705</u>	<u>515,349</u>	<u>92,763</u>
Total fund equity	<u>1,816,517</u>	<u>139,705</u>	<u>515,349</u>	<u>92,763</u>
Total liabilities and fund equity	<u>\$ 1,955,828</u>	<u>\$ 140,063</u>	<u>\$ 515,349</u>	<u>\$ 181,035</u>

See accompanying notes to financial statements

Proprietary Fund Type <u>Enterprise</u>	<u>Account Group</u>		<u>Totals</u> (Memorandum Only)	
	<u>General</u> <u>Fixed</u> <u>Assets</u>	<u>General</u> <u>Long-Term</u> <u>Debt</u>	<u>2004</u>	<u>2003</u>
	\$ -	\$ -	\$ -	\$ 19,083
199,134	-	-	199,134	172,146
341,247	-	-	422,516	286,892
26,221	-	-	42,753	43,072
673,423	-	-	784,480	512,740
-	-	-	-	1,846
2,193,335	-	-	2,193,335	2,172,008
-	-	860,000	860,000	955,000
-	-	19,200	19,200	25,600
-	-	135,553	135,553	156,677
<u>39,335</u>	<u>-</u>	<u>-</u>	<u>39,335</u>	<u>37,435</u>
<u>3,472,695</u>	<u>-</u>	<u>1,014,753</u>	<u>4,715,389</u>	<u>4,382,604</u>
2,098,947	-	-	2,098,947	2,174,748
-	3,404,079	-	3,404,079	3,183,577
766,619	-	-	766,619	526,966
1,688,912	-	-	1,688,912	2,001,306
-	-	-	1,608,112	1,630,141
<u>-</u>	<u>-</u>	<u>-</u>	<u>956,222</u>	<u>1,276,562</u>
<u>2,455,531</u>	<u>-</u>	<u>-</u>	<u>5,019,865</u>	<u>5,434,975</u>
<u>4,554,478</u>	<u>3,404,079</u>	<u>-</u>	<u>10,522,891</u>	<u>10,793,300</u>
<u>\$ 8,027,173</u>	<u>\$ 3,404,079</u>	<u>\$ 1,014,753</u>	<u>\$ 15,238,280</u>	<u>\$ 15,175,904</u>

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended May 31, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Revenues:			
Taxes	\$ 115,431	\$ 566,326	\$ -
Licenses and permits	97,633	-	-
Intergovernmental	19,529	-	-
Charges for services	169,834	-	-
Fines and forfeits	26,598	-	-
Interest income	28,408	5,312	-
Vending machine commission	24,497	-	-
Jeff Davis Sanitary Landfill	20,395	-	-
Grants	80,110	-	-
Miscellaneous	<u>39,988</u>	<u>-</u>	<u>-</u>
Total revenues	<u>622,423</u>	<u>571,638</u>	<u>-</u>
Expenditures:			
Current:			
General government	331,703	5,759	155,314
Police	655,167	-	-
Fire	143,330	-	-
Street	95,559	-	-
Sanitation	152,538	-	-
Recreation	132,766	-	-
Cemeteries	6,048	-	-
Airport	9,046	-	-
Health and welfare	3,600	-	-
Economic development	<u>8,363</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,538,120</u>	<u>5,759</u>	<u>155,314</u>
Excess (deficiency) of revenues over expenditures	<u>(915,697)</u>	<u>565,879</u>	<u>(155,314)</u>
Other financing sources (uses):			
Capital lease	-	-	-
Paving certificates	-	-	3,919
Operating transfers in	828,500	-	142,761
Operating transfers out	<u>(233,500)</u>	<u>(565,522)</u>	<u>-</u>
Total other financing sources (uses)	<u>595,000</u>	<u>(565,522)</u>	<u>146,680</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(320,697)	357	(8,634)
Fund balance at beginning of year	<u>2,137,214</u>	<u>139,348</u>	<u>523,983</u>
Fund balance at end of year	<u>\$ 1,816,517</u>	<u>\$ 139,705</u>	<u>\$ 515,349</u>

See accompanying notes to financial statements

Capital Project	Totals	
	(Memorandum Only)	
	2004	2003
\$ -	\$ 681,757	\$ 661,775
-	97,633	112,448
-	19,529	21,086
-	169,834	169,800
-	26,598	37,726
5,278	38,998	52,915
-	24,497	26,112
-	20,395	39,532
37,125	117,235	626,696
-	<u>39,988</u>	<u>84,067</u>
<u>42,403</u>	<u>1,236,464</u>	<u>1,832,157</u>
77,342	570,118	468,373
-	655,167	551,790
-	143,330	83,261
134,406	229,965	214,374
-	152,538	755,056
-	132,766	116,231
-	6,048	9,444
-	9,046	6,694
-	3,600	4,017
-	<u>8,363</u>	<u>17,898</u>
<u>211,748</u>	<u>1,910,941</u>	<u>2,227,138</u>
<u>(169,345)</u>	<u>(674,477)</u>	<u>(394,981)</u>
13,231	13,231	55,000
-	3,919	5,865
142,719	1,113,980	787,573
-	<u>(799,022)</u>	<u>(539,511)</u>
<u>155,950</u>	<u>332,108</u>	<u>308,927</u>
(13,395)	(342,369)	(86,054)
<u>106,158</u>	<u>2,906,703</u>	<u>2,992,757</u>
<u>\$ 92,763</u>	<u>\$ 2,564,334</u>	<u>\$ 2,906,703</u>

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES-BUDGET (GAAP BASIS) AND ACTUAL-ALL GOVERNMENTAL FUND TYPES
Year Ended May 31, 2004

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Taxes	\$ 115,700	\$ 115,431	\$ (269)
Licenses and permits	95,000	97,633	2,633
Intergovernmental	19,100	19,529	429
Charges for services	166,100	169,834	3,734
Fines and forfeits	26,800	26,598	(202)
Interest income	28,000	28,408	408
Vending machine commission	28,000	24,497	(3,503)
Grants	80,000	80,110	110
Landfill	20,000	20,395	395
Miscellaneous	<u>34,638</u>	<u>39,988</u>	<u>5,350</u>
Total revenues	<u>613,338</u>	<u>622,423</u>	<u>9,085</u>
Expenditures:			
Current:			
General government	332,485	331,703	782
Police	646,270	655,167	(8,897)
Fire	142,420	143,330	(910)
Street	101,350	95,559	5,791
Sanitation	147,175	152,538	(5,363)
Recreation	139,050	132,766	6,284
Cemeteries	10,600	6,048	4,552
Airport	14,250	9,046	5,204
Health and welfare	3,600	3,600	-
Economic development	8,550	8,363	187
Hospital/ECF	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total expenditures	<u>1,547,250</u>	<u>1,538,120</u>	<u>9,130</u>
Excess (deficiency) of revenues over expenditures	<u>(933,912)</u>	<u>(915,697)</u>	<u>18,215</u>
Other financing sources (uses):			
Operating transfers in	817,600	828,500	10,900
Operating transfers out	<u>(193,720)</u>	<u>(233,500)</u>	<u>(39,780)</u>
Total other financing sources (uses)	<u>623,880</u>	<u>595,000</u>	<u>(28,880)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	<u>(310,032)</u>	<u>(320,697)</u>	<u>(10,665)</u>
Fund balance at beginning of year	<u>2,137,214</u>	<u>2,137,214</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,827,182</u>	<u>\$ 1,816,517</u>	<u>\$ (10,665)</u>

See accompanying notes to financial statements

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 560,000	\$ 566,326	\$ 6,326
-	-	-
-	-	-
-	-	-
2,598	5,312	2,714
-	-	-
-	-	-
-	-	-
<u>562,598</u>	<u>571,638</u>	<u>9,040</u>

Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
5,000	3,919	(1,081)
<u>5,000</u>	<u>3,919</u>	<u>(1,081)</u>

6,200	5,759	441
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>6,200</u>	<u>5,759</u>	<u>441</u>

173,300	155,314	17,986
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>173,300</u>	<u>155,314</u>	<u>17,986</u>

<u>556,398</u>	<u>565,879</u>	<u>9,481</u>
-	-	-
<u>(656,000)</u>	<u>(565,522)</u>	<u>90,478</u>
<u>(656,000)</u>	<u>(565,522)</u>	<u>90,478</u>

<u>(168,300)</u>	<u>(151,395)</u>	<u>16,905</u>
140,500	142,761	2,261
-	-	-
<u>140,500</u>	<u>142,761</u>	<u>2,261</u>

(99,602)	357	99,959
<u>139,348</u>	<u>139,348</u>	<u>-</u>
<u>\$ 39,746</u>	<u>\$ 139,705</u>	<u>\$ 99,959</u>

(27,800)	(8,634)	19,166
<u>523,983</u>	<u>523,983</u>	<u>-</u>
<u>\$ 496,183</u>	<u>\$ 515,349</u>	<u>\$ 19,166</u>

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
 Years Ended May 31, 2004 and 2003

	<u>Enterprise Funds</u>	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Charges for services	\$ 3,154,830	\$ 2,661,774
Miscellaneous	<u>17,867</u>	<u>75,399</u>
Total operating revenues	<u>3,172,697</u>	<u>2,737,173</u>
Operating expenses:		
Public utility	2,729,669	2,343,780
Depreciation	195,591	181,787
Amortization	<u>3,544</u>	<u>3,544</u>
Total operating expenses	<u>2,928,804</u>	<u>2,529,111</u>
Operating income	<u>243,893</u>	<u>208,062</u>
Nonoperating revenues (expenses):		
Interest income	7,531	33,940
Interest expense	<u>(84,966)</u>	<u>(88,828)</u>
Total nonoperating revenues (expenses)	<u>(77,435)</u>	<u>(54,888)</u>
Income before operating transfers	166,458	153,174
Operating transfers:		
Operating transfers (out)	<u>(315,000)</u>	<u>(248,062)</u>
Net (loss)	(148,542)	(94,888)
Retained earnings at beginning of year	2,528,272	2,592,445
Depreciation on fixed assets acquired with federal grants	<u>75,801</u>	<u>30,715</u>
Retained earnings at end of year	<u>\$ 2,455,531</u>	<u>\$ 2,528,272</u>

See accompanying notes to financial statements

TOWN OF WELSH, LOUISIANA
 COMBINED STATEMENTS OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 Years Ended May 31, 2004 and 2003

	Enterprise Funds	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 243,893	\$ 208,062
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	195,591	181,787
Amortization	3,544	3,544
Net change in assets and liabilities:		
(Increase) decrease in receivables and accruals	32,108	(33,470)
(Increase) decrease in inventories	(1,596)	6,613
Decrease in prepaid expenses	2,870	715
Increase in accounts payable and accruals	107,573	61,324
Increase (decrease) in liabilities payable from restricted assets	<u>1,900</u>	<u>(3,900)</u>
Net cash provided by operating activities	<u>585,883</u>	<u>424,675</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in amounts due to other funds	83,543	99,843
Operating transfers (out)	<u>(315,000)</u>	<u>(248,062)</u>
Net cash (used in) noncapital financing activities	<u>(231,457)</u>	<u>(148,219)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond issuance	225,000	-
Acquisition and construction of fixed assets	(35,819)	(873,960)
Principal paid on bonds	(176,685)	(159,357)
Interest paid on bonds and capital lease obligations	(84,966)	(88,828)
Contributed capital received	<u>-</u>	<u>667,594</u>
Net cash (used in) capital and related financing activities	<u>(72,470)</u>	<u>(454,551)</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA
 COMBINED STATEMENTS OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 Years Ended May 31, 2004 and 2003
 (Continued)

	Enterprise Funds	
	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term investments	(227,283)	151,015
Interest income	7,531	33,940
Net cash provided by (used in) investing activities	(219,752)	184,955
Net increase in cash and cash equivalents	62,204	6,860
Cash and cash equivalents:		
Beginning of year	29,592	22,732
End of year	\$ 91,796	\$ 29,592
 Cash and cash equivalents at end of year consist of:		
Restricted cash	\$ 29,107	\$ 25,137
Unrestricted cash	62,689	4,455
Total	\$ 91,796	\$ 29,592

See accompanying notes to financial statements

TOWN OF WELSH, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

May 31, 2004

Note 1. Summary of Significant Accounting Policies

The Town of Welsh, Louisiana was incorporated September 4, 1951, under the provisions of the Lawrason Act. The Town operates under a Mayor-Board of Aldermen form of government.

The accounting and reporting policies of the Town of Welsh, Louisiana conform to accounting principles generally accepted in the United States of America as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the *Louisiana Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

The following is a summary of certain significant accounting policies.

A. Financial Reporting Entity

The accompanying financial statements include the various departments, activities, and organizational units that are within the control and authority of the Mayor and Board of Aldermen of the Town of Welsh, Louisiana. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement No. 14 of the Governmental Accounting Standards Board. This statement defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

B. Fund Accounting

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities,

fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements, in this report, into generic fund types and broad fund categories as follows:

GOVERNMENTAL FUNDS

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds account for all financial resources segregated for the acquisition or construction of major general government capital projects.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ACCOUNT GROUPS

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is

considered a measure of "available spendable resources" during a period. Fixed assets used in governmental fund type operations (general fixed assets) should be accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the Governmental Funds.

The two account groups mentioned above are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Public utility:	
Plant and equipment	50 years
Hospital and Extended Care Facility:	
Building and improvements	10-50 years
Equipment	5-25 years
Land improvements	15-20 years

C. Basis of Accounting

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 measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using a financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet and increases or decreases in net current assets are presented in the operating statements. These funds utilize the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Certain revenues such as sales tax, property tax, and charges for services are assessed and collected in such a manner that they can be accrued appropriately. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for principal and interest on general long-term debt which are recognized when due. Also, expenditures for accrued compensated absences are not recognized until they are payable from current available financial resources.

The proprietary fund is accounted for and reported using a flow of economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds are included on the balance sheet and fund equity consists of contributed capital and retained earnings. The operating statements for the proprietary fund presents increases or decreases in net total assets.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Asset Account Group. The Town has elected not to capitalize public domain ("infrastructure") fixed assets consisting of certain improvements including roads, bridges, sidewalks, and drainage improvements. No depreciation has been provided on general fixed assets.

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 applying pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989. The Town of Welsh 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 15, the Town Clerk submits to the Mayor and Town Council a proposed operating budget for the fiscal year commencing the following June 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at Town Hall to obtain comments from the public.
3. Prior to May 31, the budget is legally enacted through passage of an ordinance.
4. Amendments to the budget are approved by the Town Council by a formal adoption of an ordinance.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue and Debt Service Funds. The capital budget ordinances which encompass the Capital Project Funds present cumulative as opposed to annual budget amounts and thus budget and actual comparisons are not reported in the accompanying financial report for these funds.
6. Any revisions that alter total expenditures of any fund must be approved by the aldermen. Expenditures cannot legally exceed appropriations on a fund level.
7. The Town does not utilize encumbrance accounting.
8. Budget appropriations lapse at year end.

E. Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of less than three months. Also see Note 2 for additional disclosures related to cash and investments.

Cash and cash equivalents include amounts in demand deposits and certificates of deposit. Certificates of deposit are stated at cost.

Louisiana State Statutes, as stipulated in R.S. 39:1271, authorize the Town to invest in United States bonds, treasury notes, or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investments are stated at cost, in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

F. Estimated Uncollectibles and Contractual Allowances

Uncollectible amounts due from customers' utility receivables, hospital and extended care receivables are recognized as bad debts and contractual allowances expense through the establishment of an allowance account at the time information becomes available, which would indicate the uncollectibility of the particular receivable.

G. Inventories

Inventories held by the Enterprise Funds are priced at the lower of cost (first-in, first-out) or market.

H. Fixed Assets

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Approximately 45 percent of general fixed assets and 41 percent of public utility fixed assets are recorded at estimated historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Assets in the general fixed assets account group, if presented, are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

I. Restricted Assets

These assets consist of cash and investments restricted for various purposes as detailed in Note 4.

J. Reserves and Designations

The Town records reserves to indicate that a portion of the fund balance or retained earnings is legally segregated for a specific future use. The Town records designations to indicate the adoption of tentative plans that, if carried out, would restrict the use of financial resources. The following is a list of all reserves and designations used by the Town and a description of each as of May 31, 2004:

	<u>Reserved</u>
Enterprise funds:	
Reserved for public utility revenue bond debt service (sinking and reserve fund)	\$ 685,527
Reserved for public utility construction in progress, contingencies, capital additions	<u>81,092</u>
	<u>\$ 766,619</u>

	<u>Reserved</u>
Governmental funds:	
Reserved for cash emergency fund	\$ 1,000,000
Reserved for paving certificates	28,799
Reserved for 1996 street drainage bond	486,550
Reserved for capital projects	<u>92,763</u>
	<u>\$ 1,608,112</u>

K. Revenue Recognition - Property Taxes

Property taxes are levied on June 1, billed on November 1, and payable by December 31.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

The total millage of 7.34 for the year ending May 31, 2004 was composed of the following:

<u>Description</u>	<u>Millage</u>	<u>Tax Revenue</u>
General property tax	7.34	\$ 73,810

L. Compensated Absences

The Town accrues a liability for compensated absences which meet the following criteria:

1. The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria the Town has accrued a liability for vacation pay which has been earned but not taken by Town employees. For governmental funds the liability for compensated absences is in the general fund since it is anticipated that the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with FASB Statement 43.

M. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, complete comparative data (i.e., presentation of prior year totals by fund type in each of the statements) have not been presented since their inclusion would make the statements unduly complex and difficult to read.

N. Total Columns on Combined Statements - Overview

Total columns on the Combined Statements - Overview 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 accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Interest Expense

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62-Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants.

P. Recent Accounting Pronouncements

In June 1999, the Government Accounting Standards Board issued GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This statement requires special purpose governments to redraft their financial statements to include a section for management discussion and analysis, enterprise fund financial statements (defined to include a statement of net

assets; a statement of revenues, expenses and changes in fund net assets; and a statement of cash flows), notes to the financial statements, and required supplementary information. This statement is effective for the Town of Welsh for fiscal years beginning after June 15, 2003. The Town does not anticipate that the adoption of GASB No. 34 will have a material effect on its financial position or results of operations.

In addition, the Governmental Accounting Standards Board issued the following standards that are required to be implemented at the same time as GASB No. 34, as follows:

GASB Statement No. 37; Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus. This statement amends GASB Statement No. 34 to either (1) clarify certain provisions or (2) modify other provisions that the GASB believes may have unintended consequences in some circumstances. Accordingly, the Town will need to consider the effects of this statement when adopting the provisions of GASB Statement No. 34.

GASB Statement No. 38; Certain Financial Statement Note Disclosures. This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures will need to be revised to conform to the provisions of GASB Statement No. 38.

Note 2. Cash, Cash Equivalents and Investments

Pursuant to state law the Town may deposit funds with state banks organized under the laws of Louisiana and national banks having principal offices in the state. Investments may include instruments or obligations issued by the United States Government or its agencies, time certificates of deposit of certain banks, or any other federally issued investment.

The Town's bank demand and time deposits at year end were entirely covered by federal depository insurance or by pledge of securities owned by the financial institution in the Town's name. The deposits at May 31, 2004 classified to give an indication of the level of risk assumed by the Town are as follows:

	Cash and Demand <u>Deposits</u>	Certificates of <u>Deposit</u>
May 31, 2004		
Carrying amount	<u>\$ 293,594</u>	<u>\$ 1,684,263</u>

May 31, 2004	<u>Cash and Demand Deposits</u>	<u>Certificates of Deposit</u>
Bank balances:		
1. Insured or collateralized with securities held by the entity or its agent in the entity's name	\$ 249,416	\$ 100,000
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name	115,361	1,584,263
3. Uncollateralized, including any securities held for the entity but not in the entity's name	<u>-</u>	<u>-</u>
Total bank balances	<u>\$ 364,777</u>	<u>\$ 1,684,263</u>

Credit risk categories:

The Town's deposits and investments are categorized above in accordance with GASB Statement No. 3 to give an indication of the level of risk assumed at year end. Category 1, which represents the lowest level of risk, includes investments and deposits that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments with the securities held by the financial institution's trust department or agent in the Town's name. Category 3, which represents the greatest level of risk, includes uninsured and unregistered investments or deposits which are not protected by collateral, or for which securities are not held in the Town's name. Category 3 were not applicable to any deposits or investments at any time during the fiscal year ended May 31, 2004.

Investments held at May 31, 2004, consist of \$810,006 in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool (see Summary of Significant Accounting Policies). In accordance with GASB Codification Section I50.165, the investment in LAMP at May 31, 2004, is not categorized in the three risk categories provided by GASB Codification Section I50.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Officers Association of Louisiana, and the Society of

Louisiana CPA's. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

Note 3. Dedication of Proceeds and Flow of Funds - 2.0% Sales and Use Tax

Proceeds of a 1% sales and use tax levied by the Town of Welsh, Louisiana (2004 collections \$283,163; 2003 \$270,722) are dedicated to the following purposes:

1. Used for any legal purpose as approved by Mayor and Board of Aldermen. Proceeds of a 1% sales and use tax levied by the Town of Welsh, Louisiana approved by voters May, 1996 to expire April 2011 (2004 collections \$283,163; 2003 \$270,722) are dedicated to the following purposes:
 - A. 100% of collections to be used for street maintenance, construction and bonded debt repayment.

Note 4. Restricted Assets

Assets were restricted for the following purposes as of May 31, 2004:

Public utility:	
Customer deposits	\$ 39,335
Sewer and water system construction in progress	81,092
Revenue bond sinking fund, 1988 series	164,888
Revenue bond reserve fund, 1988 series	201,429
Revenue bond sinking fund, 1994 series	10,475
Revenue bond reserve fund, 1994 series	74,730
Water sinking and construction fund, 2003 series	<u>234,005</u>
 Total-all proprietary fund types	 <u>\$ 805,954</u>
 General fund:	
Emergency cash reserve	<u>\$ 1,000,000</u>

Note 5. Fixed Assets

A summary of proprietary fund type property, plant and equipment at May 31, 2004 follows:

Public utility:		
Land		\$ 128,205
Electric system		2,243,114
Water system		1,808,661
Sewer system		<u>5,983,147</u>
		10,163,127
Less accumulated depreciation		<u>3,648,117</u>
		<u>\$ 6,515,010</u>

Note 6. Bond Issue Cost

Bond issue costs are being amortized on the straight-line method over the life of the bonds. The following is a summary of net bond issue cost at May 31, 2004:

Cost		\$ 70,873
Less accumulated amortization		<u>55,814</u>
		<u>\$ 15,059</u>

Note 7. Liabilities Payable From Restricted Assets

Certain cash and investments of the Town have been restricted for payment of the following:

Customer deposits in Public Utility Fund		\$ 39,335
--	--	-----------

Note 8. Changes in General Fixed Asset Group

A summary of changes in general fixed assets follows:

	Balance <u>5/31/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>5/31/04</u>
Buildings	\$ 372,641	\$ -	\$ -	\$ 372,641
Equipment and furniture	716,996	100,827	-	817,823
Improvements other than buildings	989,869	12,290	-	1,002,159
Land	72,599	-	-	72,599
Construction in progress	-	77,299	-	77,299
Vehicles	<u>1,031,472</u>	<u>30,086</u>	-	<u>1,061,558</u>
	<u>\$ 3,183,577</u>	<u>\$ 220,502</u>	<u>\$ -</u>	<u>\$ 3,404,079</u>

Note 9. Long-Term Debt

The following is a summary of bonds payable of the Town for the year ended May 31, 2004:

	Balance <u>5/31/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>5/31/04</u>
Enterprise:				
Revenue bonds	<u>\$ 2,344,154</u>	<u>\$ 225,000</u>	<u>\$ 176,685</u>	<u>\$ 2,392,469</u>
General long-term debt group	<u>\$ 1,137,277</u>	<u>\$ 20,230</u>	<u>\$ 142,754</u>	<u>\$ 1,014,753</u>

Bonds payable are comprised of the following:

Enterprise fund debt:

\$1,000,000 1994 Water Revenue Bonds, maturing December 8, 2014, principal and interest payable monthly in amount of \$6,880, interest rate of 5.125% per annum	\$ 672,469
Refunding bonds-Series 1995, maturing serially and become due September 1 of each year until final retirement September 1, 2008, interest rate at 5.75%	405,000
DEQ loan dated October 25, 1996 in the original amount of \$1,500,000, 1.95% interest plus .5% fee maturing September 1, 2017 payable annually in amortization payments	1,090,000
\$225,000 of Certificate of Indebtedness, Series 2003, maturing November 1, 2013, net interest rate of 4.04%, interest payable semi-annually with principal payments made annually	<u>225,000</u>
Total enterprise fund debt	<u>\$ 2,392,469</u>

General obligation debt:

\$1,500,000 Public Improvement Sales Tax Bonds Series ST-1996 maturing May 1, 2011, principal payable annually, interest payable semi-annually until final retirement, interest rate 8.00% through May 1, 2001 and increases annually from 4.9% at May 1, 2003 to 5.5% at maturity	\$ 860,000
Paving Certificates-1997 - 10 certificates each at \$6,400 maturing one each year at January 1 beginning 1998 through January 1, 2007, fixed annual payment of \$6,400 plus 5.5% annual interest from issue to maturity	19,200
Capital lease obligation as described in Note 10	<u>135,553</u>
Total General Long-Term Debt Group	<u>\$ 1,014,753</u>

The annual requirements to amortize all bonded debts outstanding as of May 31, 2004 follows:

Enterprise Fund Bonds:

Year Ending <u>May 31,</u>	<u>FMHA Water Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 49,134	\$ 33,321	\$ 82,455
2006	51,712	30,743	82,455
2007	54,426	28,029	82,455
2008	57,282	25,173	82,455
2009-2016	<u>459,915</u>	<u>82,914</u>	<u>542,829</u>
	<u>\$ 672,469</u>	<u>\$ 200,180</u>	<u>\$ 872,649</u>

Year Ending <u>May 31,</u>	<u>Utility Revenue Bonds - Series 1995</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 70,000	\$ 16,576	\$ 86,576
2006	80,000	13,216	93,216
2007	80,000	9,632	89,632
2008	85,000	5,936	90,936
2009-thereafter	<u>90,000</u>	<u>2,016</u>	<u>92,016</u>
	<u>\$ 405,000</u>	<u>\$ 47,376</u>	<u>\$ 452,376</u>

Year Ending May 31,	DEQ Loan		
	Principal	Interest	Total
2005	\$ 60,000	\$ 25,970	\$ 85,970
2006	60,000	24,500	84,500
2007	65,000	22,969	87,969
2008	65,000	21,376	86,376
2009-thereafter	<u>840,000</u>	<u>109,270</u>	<u>949,270</u>
	<u>\$ 1,090,000</u>	<u>\$ 204,085</u>	<u>\$ 1,294,085</u>

Year Ending May 31,	Certificate of Indebtedness-Series 2003		
	Principal	Interest	Total
2005	\$ 20,000	\$ 7,587	\$ 27,587
2006	20,000	7,251	27,251
2007	21,000	6,834	27,834
2008	21,000	6,351	27,351
2009-thereafter	<u>143,000</u>	<u>24,309</u>	<u>167,309</u>
	<u>\$ 225,000</u>	<u>\$ 52,332</u>	<u>\$ 277,332</u>

General Long-Term Debt Group:

Year Ending May 31,	Public Improvement Bonds-ST-1996		
	Principal	Interest	Total
2005	\$ 105,000	\$ 46,650	\$ 151,650
2006	110,000	41,190	151,190
2007	115,000	35,360	150,360
2008	120,000	29,150	149,150
2009-2013	<u>410,000</u>	<u>45,925</u>	<u>455,925</u>
	<u>\$ 860,000</u>	<u>\$ 198,275</u>	<u>\$ 1,058,275</u>

Year Ending May 31,	Paving Certificates - 1998		
	Principal	Interest	Total
2005	\$ 6,400	\$ 1,056	\$ 7,456
2006	6,400	704	7,104
2007	6,400	352	6,752
2008	-	-	-
2009	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,200</u>	<u>\$ 2,112</u>	<u>\$ 21,312</u>

The Utilities Revenue Bond, Series 1988 was refunded during the fiscal year ended May 31, 1997, which will produce an ultimate savings of \$351,316 over the life of the issue, which will be fully paid on September 1, 2008. A new bond issue in the amount of \$700,000 was combined with funds of the Town to retire the 1988 issue on September 1, 1998. The Series 1988 issue had an interest rate of above 8% while the refunding bonds have an interest rate of 5.75%.

All issuance costs of the transaction (\$105,977) were paid with various restricted funds remaining from the Series 1988 issue. The net proceeds were used to purchase U.S. Government securities yielding 5 percent. These funds were deposited with the escrow agent to provide for debt service at September 1, 2008. These costs will be amortized over the life of the old issue (three years) beginning June 1, 1997.

The 1988 Public Utility Fund Revenue Bond Indenture requires, among other things, that the Town establish and maintain utility rates so that operating income before depreciation is at least equal to 140% of the largest amount of principal and interest maturing in any future fiscal year (\$161,280). This bond indenture also requires the establishment and maintenance of various cash funds. As of May 31, 2004, the Town remains in substantial compliance with these requirements as well as numerous other limitations and restrictions contained in this indenture.

The 1994 FMHA Utility Revenue Bond Indenture requires, among other things, that the Town adopt the utility rates as outlined on the bond indenture. This bond also requires the establishment and maintenance of various cash funds. As of May 31, 2004, the Town is in substantial compliance with these requirements, as well as numerous other limitations and restrictions contained in this indenture.

On March 11, 2002, the Town consummated an interest rate reduction on the outstanding Utilities Revenue Refunding Bonds, Series 195, of the Town of Welsh, State of Louisiana, from 2.45 percent to 1.95 percent. The Town completed this interest rate reduction to reduce its total debt service payments over the next 15 years by \$22,384 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$19,633.

Note 10. Capital Lease

The present value of capital leases are:

	<u>Capital Leases</u>
	General Long-Term Debt (1)
2005	\$ 45,302
2006	40,372
2007	31,326
Thereafter	<u>28,715</u>
Total	145,715
Less amount representing interest (0.525% to 0.650%)	<u>10,162</u>
Present value of future minimum lease payments	<u>\$ 135,553</u>

(1) These leases, primarily payable from the General Fund, are reported as an expenditure and other financing source in the year of acquisition.

Note 11. Deficit Fund Balance or Retained Earnings

As of May 31, 2004, there were deficits of \$19,083 in the Paving Certificate Capital Project Fund and \$40,217 in the Grants Capital Project Fund. There was also a deficit of \$191 in the Federal Revenue Sharing Fund.

Note 12. Interfund Transactions

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. All interfund transactions of the Town except loans or advances, quasi-external transactions, and reimbursements are reflected as transfers.

Individual fund interfund receivable and payable balances at May 31, 2004 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 550,856	\$ 53,952
Special Revenue Fund	80,685	191
Debt Service Fund	21	-
Capital Project Fund	-	56,914
Enterprise Funds:		
Public utility	<u>152,918</u>	<u>673,423</u>
	<u>\$ 784,480</u>	<u>\$ 784,480</u>

Note 13. Litigation

The Town has had various claims and lawsuits lodged against it. All are within the normal course of business and have been evaluated by the Town's attorney and management. It is the opinion of legal counsel that these claims are adequately covered by insurance.

Note 14. Landfill Joint Venture

The Town is a participant in a joint venture referred to as the Jefferson Davis Parish Sanitary Landfill Commission. This entity was chartered on February 17, 1984. The Commission's purpose is the establishment of a long-term plant for the disposal of solid wastes in Jefferson Davis Parish. According to the charter, each participant in the Commission is responsible for a pro rata share of any operating deficits. Likewise, any distributions of surpluses are also shared on a pro rata basis. Each participant's pro rata share is based on the number of households within each participant's unit to the total number of households within all participating units. These proportions were determined using the 1980 U.S. Census as follows:

<u>Locality</u>	<u>Number of Households</u>	<u>Percentages</u>
Jennings	4,161	.421196
Welsh	1,167	.118129
Lake Arthur	1,212	.122684
Parish (excluding Jennings, Welsh, Lake Arthur and Elton)	<u>3,339</u>	<u>.337991</u>
	<u>9,879</u>	<u>1.000000</u>

The Commission consists of six commissioners as follows: two residents of Jennings, one resident of Welsh, one resident of Lake Arthur, and two residents of Jefferson Davis Parish living outside the city limits of Jennings, Welsh, Lake Arthur and Elton. The Commission members are to be appointed by the governing body of their place of residence.

The Commission has the power and authority to employ personnel, adopt its own budget and enter into agreements necessary for the operation of the landfill. In certain instances, some agreements must be consented to by all six members of the Commission.

Condensed financial information for the Jefferson Davis Parish Sanitary Landfill as of December 31, 2003 (the latest available audited financial statements) were as follows:

	<u>Total</u>	<u>Welsh (11.8129%)</u>
Total assets	\$ 7,555,255	\$ 892,495
Total liabilities	45,587	5,385
Total equity	7,509,668	887,110
Total liabilities and equity	7,555,255	892,495
Total revenues	829,332	97,968
Total expenditures	877,525	103,661
Net (decrease) in fund balance	(48,193)	(5,693)

As of December 31, 2003, the Commission had no long-term debt outstanding.

The Landfill Commission as owner of a sanitary landfill is subject to recent Environmental Protection Agency (EPA) regulations that require monitoring the landfill site for 30 years following closure of the site in addition to other closure requirements. These regulations also mandate that landfill owners provide financial assurances that they will have the resources available to satisfy the post closure standards. These guarantees can be third-party trusts, surety bonds, letters of credit, insurance, or state sponsored plans. According to the Commission's contract with the site operator, "...the contractor shall be responsible for closure in accordance with the permit..". Additionally, "...the contractor's post-closure care, maintenance and monitoring responsibility shall be three (3) years, or as required by law...". In the event the operator is for whatever reason unwilling or unable to fulfill this requirement, the responsibility for closure and post closure monitoring will revert back to the Commission.

Additionally, because of the industry the Commission participates in, certain potential liabilities are always present. These include, but are not limited to, environmental cleanup costs and EPA penalties for violation of its regulations. The EPA is empowered by law (through the Superfund legislation) to seek recovery from anyone who ever owned or operated a particular contaminated site, or anyone who ever generated or transported hazardous materials to a site (these parties are commonly referred to as potentially responsible parties, or PRPs). Potentially, the liability can extend to subsequent owners or to the parent company of a PRP. While there are no asserted or unasserted potential costs or penalties at the date of this report that the Commission is aware of, the potential is present.

On January 21, 2003, the Commission voted to distribute \$88,000 to the four local government bodies that participate in the Landfill Commission and funded its construction and early operations. The distributions were made in the same proportions as the original investments by the governments. For the Town of Welsh, the distribution amounted to \$20,395 and \$39,532, respectively, which is recorded as "Jeff Davis Sanitary Landfill" in the General Fund in the fiscal years ended May 31, 2004 and 2003.

Note 16. Pension Plan

Municipal Employee's Retirement System:

Plan description:

The Town of Welsh contributes to the Municipal Employees' Retirement System of Louisiana, a cost-sharing multiple-employer plan administered by the Municipal Employee's Retirement System, State of Louisiana. The Municipal Employees' Retirement System of Louisiana was established by Act 356 of the 1954 regular session of the Legislature of the State of Louisiana to provide retirement benefits to employees of all incorporated villages, towns and cities within the State, which did not have their own retirement systems and which elected to become members of the System. The System is administered by a Board of Trustees composed of nine members, six of whom shall be active and contributing members of the System with at least ten years creditable service, elected by the members of the System; one of whom shall be the president of the Louisiana Municipal Association who shall serve as an ex-officio member during his tenure; one of whom shall be the Chairman of the Senate Retirement Committee; one of whom shall be the Chairman of the House Retirement Committee of the Legislature of Louisiana. Act #569 of the year 1968 established by the Legislature of the State of Louisiana provides an optional method for municipalities to cancel Social Security and come under supplementary benefits in the Municipal Employees' Retirement System, effective on and after June 30, 1970. Effective October 1, 1978, under Act #788, the "regular plan" and the "supplemental plan" were replaced, and are now known as Plan "A" and Plan "B". Plan "A" combines the original plan and the supplemental plan for those

municipalities participating in both plans, while Plan "B" participates in only the original plan. The Town of Welsh is a member of plan "B" of the retirement system. Historical trend information for this plan is included in the separately issued report for the Municipal Employee's Retirement System for the period ended June 30, 2003.

Funding policy:

Plan members are required to contribute 5.00% of their annual covered salary and the Town of Welsh is required to contribute at a statutorily determined rate. The current rate is 4.50% of annual covered payroll. The contribution requirements of plan members and the Town of Welsh are established and may be amended by the Board of Trustees. The Town of Welsh's contributions to the Municipal Employees' Retirement System of Louisiana for the years ending May 31, 2004, 2003, and 2002 were \$31,699, \$24,133, and \$17,991, respectively, equal to the required contributions for each year.

Municipal Police Employees Retirement System:

Plan description:

The Town of Welsh contributes to the Municipal Police Employees' Retirement System, a cost-sharing multiple employer plan administered by the Municipal and State Police Employees' Retirement System of Louisiana. The Municipal Police Employees' Retirement System was established as of July 1, 1973, by Act 189 of 1973 and amended by RS 33:2371 of the 1986 session to become Municipal and State Police Retirement System of Louisiana. The system is a state retirement system which was created to provide retirement benefits for full time municipal police officers in Louisiana, and state police officers hired after January 1, 1987. The system is administered by a Board of Trustees of the Retirement Committee of the House of Representatives and the Chairman of the Senate Finance Committee, or their designees, to serve as voting ex-officio members of the board. Historical trend information for this plan is included in the separately issued report for the Municipal Employees' Retirement System for the period ended June 30, 2003.

Funding policy:

Plan members are required to contribute 7.5% of their annual covered salary and the Town of Welsh is required to contribute at a statutorily determined rate. The current rate is 15.25% of annual covered payroll. The contribution requirements of plan members and the Town of Welsh are established and may be amended by the Board of Trustees. The Town of Welsh's contributions to the Municipal Police Employees' Retirement System for the years ending May 31, 2004, 2003 and 2002 were \$17,865, \$6,561 and \$4,890, respectively, equal to the required contributions for each year.

Note 18. Contributed Capital

The following is a schedule of changes in contributed capital for the year ended May 31, 2004:

	<u>Public Utility Fund</u>
Balance, June 1, 2003	\$ 2,174,748
Contributions received from grants	-
Depreciation on contributed assets	<u>(75,801)</u>
Balance, May 31, 2004	<u>\$ 2,098,947</u>

Note 19. Subsequent Event

On August 5, 2004, the Town refinanced its 1994 Water Revenue Bonds. The new bonds will mature November 1, 2014 and have a variable interest rate ranging from 2.45% to 4.60%.

COMBINING STATEMENTS

SPECIAL REVENUE FUNDS

SALES TAX FUND - to account for the collection of the 1% sales and use tax which is to be used for purposes approved by the Mayor and Board of Aldermen.

FEDERAL REVENUE SHARING FUND - to account for the revenues and expenditures of the federal revenue sharing program as required by federal regulations.

LOCAL GOVERNMENT ASSISTANCE - to account for the revenue received from the State of Louisiana Local Government Assistance Fund. The Town must submit a report to each member of its legislative delegation on the proposed use of these funds prior to the commitment of such funds.

SALES TAX - 1996 - to account for the 1996 sales tax collections of the 15 year 1% sales and use tax to be used to retire \$1,500,000 long-term debt and for street improvements and maintenance.

TOWN OF WELSH, LOUISIANA
SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET
May 31, 2004
With Comparative Totals for May 31, 2003

<u>ASSETS</u>	<u>Sales Tax</u>	<u>Federal Revenue Sharing</u>	<u>Local Government Assistance</u>
Cash	\$ -	\$ -	\$ -
Investments	-	-	59,378
Due from other funds	<u>75,626</u>	<u>-</u>	<u>5,059</u>
Total assets	<u>\$ 75,626</u>	<u>\$ -</u>	<u>\$ 64,437</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 167	\$ -	\$ -
Due to other funds	<u>-</u>	<u>191</u>	<u>-</u>
Total liabilities	167	191	-
 Fund balances:			
Unreserved:			
Undesignated	<u>75,459</u>	<u>(191)</u>	<u>64,437</u>
Total liabilities and fund balances	<u>\$ 75,626</u>	<u>\$ -</u>	<u>\$ 64,437</u>

Sales Tax 1996	Totals	
	2004	2003
\$ -	\$ -	\$ 237
-	59,378	58,784
-	<u>80,685</u>	<u>80,685</u>
<u>\$ -</u>	<u>\$ 140,063</u>	<u>\$ 139,706</u>

\$ -	\$ 167	\$ 167
-	<u>191</u>	<u>191</u>
-	358	358

-	<u>139,705</u>	<u>139,348</u>
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<u>\$ -</u>	<u>\$ 140,063</u>	<u>\$ 139,706</u>
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TOWN OF WELSH, LOUISIANA
SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended May 31, 2004
With Comparative Totals for Year Ended May 31, 2003

	<u>Sales Tax</u>	<u>Federal Revenue Sharing</u>	<u>Local Government Assistance</u>
Revenues:			
Taxes	\$ 283,163	\$ -	\$ -
Interest income	<u>2,359</u>	<u>-</u>	<u>594</u>
Total revenues	285,522	-	594
Expenditures:			
General government	<u>5,759</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	279,763	-	594
Other financing sources (uses):			
Operating transfers out	<u>(280,000)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	(237)	-	594
Fund balances at beginning of year	<u>75,696</u>	<u>(191)</u>	<u>63,843</u>
Fund balances at end of year	<u>\$ 75,459</u>	<u>\$ (191)</u>	<u>\$ 64,437</u>

Sales Tax 1996	<u>Totals</u>	
	<u>2004</u>	<u>2003</u>
\$ 283,163	\$ 566,326	\$ 541,443
<u>2,359</u>	<u>5,312</u>	<u>4,542</u>
285,522	571,638	545,985
<u>-</u>	<u>5,759</u>	<u>7,614</u>
285,522	565,879	538,371
<u>(285,522)</u>	<u>(565,522)</u>	<u>(539,511)</u>
-	357	(1,140)
<u>-</u>	<u>139,348</u>	<u>140,488</u>
<u>\$ -</u>	<u>\$ 139,705</u>	<u>\$ 139,348</u>

DEBT SERVICE FUNDS

PAVING CERTIFICATES ISSUED IN 1996 - to accumulate monies for payment of 10 paving certificates at \$6,400 each to retire one per year for 10 years at 5.5% annual interest. Funds for servicing debt provided by paving assessments payable in 30 days at 2% interest or annually over 10 years at 6.5% interest.

ST-1996 - to accumulate monies for the payment of \$1,500,000 sales tax bonds with graduated annual payments from \$65,000 to \$145,000 for 15 years with semi-annual interest at 8% for 5 years and 4.9% graduated to 5.5% for 10 years. This issue is being serviced with the proceeds of the Town's 1% sales and use tax.

TOWN OF WELSH, LOUISIANA
DEBT SERVICE FUNDS

COMBINING BALANCE SHEET
May 31, 2004
With Comparative Totals for May 31, 2003

<u>ASSETS</u>	Paving <u>Certificates</u>	1996 ST-1996 Street Drainage <u>Bonds</u>	<u>Totals</u>	
			<u>2004</u>	<u>2003</u>
Cash	\$ 18,641	\$ 124,954	\$ 143,595	\$ 138,464
Cash - sinking	137	-	137	137
Investments	10,000	361,596	371,596	385,361
Assessments receivable	-	-	-	1,846
Due from other fund	<u>21</u>	<u>-</u>	<u>21</u>	<u>21</u>
Total assets	<u>\$ 28,799</u>	<u>\$ 486,550</u>	<u>\$ 515,349</u>	<u>\$ 525,829</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Deferred paving assessments	\$ -	\$ -	\$ -	\$ 1,846
Fund balances:				
Reserved	<u>28,799</u>	<u>486,550</u>	<u>515,349</u>	<u>523,983</u>
Total liabilities and fund balances	<u>\$ 28,799</u>	<u>\$ 486,550</u>	<u>\$ 515,349</u>	<u>\$ 525,829</u>

TOWN OF WELSH, LOUISIANA
DEBT SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended May 31, 2004
With Comparative Actual Amounts for Year Ended May 31, 2003

	Paving Certificates	1996 ST-1996 Street Drainage Bonds	Totals	
			2004	2003
Revenues:				
Assessments	\$ 3,919	\$ -	\$ 3,919	\$ 5,865
Expenditures:				
Bond principal	6,400	95,000	101,400	96,400
Bond interest	1,408	52,506	53,914	57,755
Bond sale expenses	-	-	-	1,040
Total expenditures	7,808	147,506	155,314	155,195
(Deficiency) of revenues over expenditures	(3,889)	(147,506)	(151,395)	(149,330)
Other financing sources (uses):				
Operating transfer in	-	142,761	142,761	136,256
Excess (deficiency) of revenues and other sources over expenditures and other uses	(3,889)	(4,745)	(8,634)	(13,074)
Fund balances at beginning of year	32,688	491,295	523,983	537,057
Fund balances at end of year	\$ 28,799	\$ 486,550	\$ 515,349	\$ 523,983

CAPITAL PROJECTS FUND

GRANT - to account for Community Development Block Grant funds and proceeds from Environmental Protection Agency.

PAVING - to account for paving certificate proceeds and expenditures made for paving.

SALES TAX-1996 - to account for proceeds of ST-1996 bonds and expenditures made for streets, drainage, equipment and improvements.

TOWN OF WELSH, LOUISIANA
CAPITAL PROJECTS FUND

BALANCE SHEETS
May 31, 2004 and 2003

<u>ASSETS</u>	<u>Grants</u>	<u>Paving Certificates</u>	<u>Sales Tax 1996</u>	<u>Totals</u>	
				<u>2004</u>	<u>2003</u>
Cash	\$ 57	\$ -	\$ 46,478	\$ 46,535	\$ 35,940
Investments	-	-	134,500	134,500	116,361
 Total assets	 <u>\$ 57</u>	 <u>\$ -</u>	 <u>\$ 180,978</u>	 <u>\$ 181,035</u>	 <u>\$ 152,301</u>
<u>LIABILITIES</u>					
<u>AND FUND BALANCE</u>					
Liabilities:					
Cash overdraft	\$ -	\$ 19,083	\$ -	\$ 19,083	\$ 19,188
Accounts payable	12,275	-	-	12,275	5,320
Due to other funds	<u>27,999</u>	<u>-</u>	<u>28,915</u>	<u>56,914</u>	<u>21,635</u>
Total liabilities	40,274	19,083	28,915	88,272	46,143
 Fund balance	 <u>(40,217)</u>	 <u>(19,083)</u>	 <u>152,063</u>	 <u>92,763</u>	 <u>106,158</u>
 Total liabilities and fund balance	 <u>\$ 57</u>	 <u>\$ -</u>	 <u>\$ 180,978</u>	 <u>\$ 181,035</u>	 <u>\$ 152,301</u>

TOWN OF WELSH, LOUISIANA
CAPITAL PROJECTS FUND

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Years Ended May 31, 2004 and 2003

	<u>Grants</u>	<u>Paving Certificates</u>	<u>Sales Tax 1996</u>	<u>Totals</u>	
				<u>2004</u>	<u>2003</u>
Revenues:					
Grant income	\$ 37,125	\$ -	\$ -	\$ 37,125	\$ 502,330
Interest	<u>-</u>	<u>105</u>	<u>5,173</u>	<u>5,278</u>	<u>9,426</u>
Total revenues	<u>37,125</u>	<u>105</u>	<u>5,173</u>	<u>42,403</u>	<u>511,756</u>
Expenditures:					
Capital outlays	-	-	-	-	526,131
Paving/streets	-	-	134,406	134,406	121,306
General government	<u>77,342</u>	<u>-</u>	<u>-</u>	<u>77,342</u>	<u>-</u>
Total expenditures	<u>77,342</u>	<u>-</u>	<u>134,406</u>	<u>211,748</u>	<u>647,437</u>
(Deficiency) of revenues over expenditures	<u>(40,217)</u>	<u>105</u>	<u>(129,233)</u>	<u>(169,345)</u>	<u>(135,681)</u>
Other financing sources (uses):					
Capital lease	-	-	13,231	13,231	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>142,719</u>	<u>142,719</u>	<u>160,056</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>155,950</u>	<u>155,950</u>	<u>160,056</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(40,217)</u>	<u>105</u>	<u>26,717</u>	<u>(13,395)</u>	<u>24,375</u>
Fund balance at beginning of year, as restated	<u>-</u>	<u>(19,188)</u>	<u>125,346</u>	<u>106,158</u>	<u>81,783</u>
Fund balance at end of year	<u>\$ (40,217)</u>	<u>\$ (19,083)</u>	<u>\$ 152,063</u>	<u>\$ 92,763</u>	<u>\$ 106,158</u>

PUBLIC UTILITY FUND

PUBLIC UTILITY FUND - to account for the provision of electricity, water, and sewer services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY FUND

COMPARATIVE BALANCE SHEETS
May 31, 2004 and 2003

<u>ASSETS</u>	<u>Light</u>	<u>Sewer</u>
Current assets:		
Cash and cash equivalents	\$ 62,689	\$ -
Investments	54,436	-
Receivables:		
Accounts	339,278	-
Estimated uncollectibles and allowances	(82,305)	-
Unbilled accounts	50,300	4,400
Accrued interest	2,284	-
Inventory	67,734	-
Prepaid expenses	2,818	1,463
Other current assets	637	-
Due from other funds	-	80,246
Total current assets	<u>497,871</u>	<u>86,109</u>
Restricted assets:		
Cash and cash equivalents	29,107	-
Investments	<u>542,842</u>	-
Total restricted assets	<u>571,949</u>	-
Property, plant and equipment, net	<u>931,678</u>	<u>4,853,690</u>
Other assets:		
Bond issue cost, net	<u>15,059</u>	-
Total assets	<u>\$ 2,016,557</u>	<u>\$ 4,939,799</u>

<u>Water</u>	<u>2004</u>	<u>2003</u>
\$ -	\$ 62,689	\$ 4,455
-	54,436	53,905
-	339,278	342,349
-	(82,305)	(55,868)
5,200	59,900	62,500
-	2,284	2,284
28,494	96,228	94,632
804	5,085	7,955
-	637	637
<u>72,672</u>	<u>152,918</u>	<u>-</u>
<u>107,170</u>	<u>691,150</u>	<u>512,849</u>
-	29,107	25,137
<u>234,005</u>	<u>776,847</u>	<u>550,095</u>
<u>234,005</u>	<u>805,954</u>	<u>575,232</u>
<u>729,642</u>	<u>6,515,010</u>	<u>6,674,782</u>
-	15,059	18,603
<u>\$ 1,070,817</u>	<u>\$ 8,027,173</u>	<u>\$ 7,781,466</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY FUND

COMPARATIVE BALANCE SHEETS
May 31, 2004 and 2003
(Continued)

<u>LIABILITIES AND FUND EQUITY</u>	<u>Light</u>	<u>Sewer</u>
Current liabilities:		
Current portion of long-term debt	\$ 70,000	\$ 60,000
Accounts payable	341,247	-
Accrued liabilities	12,770	7,145
Due to other funds	<u>673,423</u>	<u>-</u>
Total current liabilities	<u>1,097,440</u>	<u>67,145</u>
Other liabilities:		
Long-term debt, net of current portion:		
Revenue bonds payable, certificates of indebtedness payable	335,000	1,030,000
Payable from restricted assets	<u>39,335</u>	<u>-</u>
Total other liabilities	<u>374,335</u>	<u>1,030,000</u>
Fund equity:		
Contributed capital	-	1,919,018
Retained earnings:		
Reserved	544,782	234,724
Unreserved:		
Undesignated	<u>-</u>	<u>1,688,912</u>
Total retained earnings	<u>544,782</u>	<u>1,923,636</u>
Total fund equity	<u>544,782</u>	<u>3,842,654</u>
Total liabilities and fund equity	<u>\$ 2,016,557</u>	<u>\$ 4,939,799</u>

<u>Water</u>	<u>2004</u>	<u>2003</u>
\$ 69,134	\$ 199,134	\$ 172,146
-	341,247	233,796
6,306	26,221	26,099
<u>-</u>	<u>673,423</u>	<u>436,962</u>
<u>75,440</u>	<u>1,240,025</u>	<u>869,003</u>
828,335	2,193,335	2,172,008
<u>-</u>	<u>39,335</u>	<u>37,435</u>
<u>828,335</u>	<u>2,232,670</u>	<u>2,209,443</u>
179,929	2,098,947	2,174,748
(12,887)	766,619	526,966
<u>-</u>	<u>1,688,912</u>	<u>2,001,306</u>
<u>(12,887)</u>	<u>2,455,531</u>	<u>2,528,272</u>
<u>167,042</u>	<u>4,554,478</u>	<u>4,703,020</u>
<u>\$ 1,070,817</u>	<u>\$ 8,027,173</u>	<u>\$ 7,781,466</u>

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY FUND

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Years Ended May 31, 2004 and 2003

	Light	Sewer
Operating revenues:		
Charges for services	\$ 2,616,351	\$ 242,263
Tap fees	-	-
Miscellaneous	16,967	-
Total operating revenues	2,633,318	242,263
Operating expenses:		
Public utility	2,344,286	164,813
Depreciation	47,034	112,463
Amortization	3,544	-
Total operating expenses	2,394,864	277,276
Operating income (loss)	238,454	(35,013)
Nonoperating revenues (expenses):		
Interest income	6,292	-
Interest expense	(12,695)	(31,891)
Total nonoperating revenues (expenses)	(6,403)	(31,891)
Income (loss) before operating transfers	232,051	(66,904)
Operating transfers:		
Operating transfers (out)	(315,000)	-
Net income (loss)	(82,949)	(66,904)
Retained earnings at beginning of year	627,731	1,918,924
Depreciation on fixed assets acquired with federal grants	-	71,616
Retained earnings at end of year	\$ 544,782	\$ 1,923,636

<u>Water</u>	<u>2004</u>	<u>2003</u>
\$ 296,216	\$ 3,154,830	\$ 2,661,774
900	900	1,350
<u>-</u>	<u>16,967</u>	<u>74,049</u>
<u>297,116</u>	<u>3,172,697</u>	<u>2,737,173</u>
220,570	2,729,669	2,343,780
36,094	195,591	181,787
<u>-</u>	<u>3,544</u>	<u>3,544</u>
<u>256,664</u>	<u>2,928,804</u>	<u>2,529,111</u>
<u>40,452</u>	<u>243,893</u>	<u>208,062</u>
1,239	7,531	33,940
<u>(40,380)</u>	<u>(84,966)</u>	<u>(88,828)</u>
<u>(39,141)</u>	<u>(77,435)</u>	<u>(54,888)</u>
1,311	166,458	153,174
<u>-</u>	<u>(315,000)</u>	<u>(248,062)</u>
1,311	(148,542)	(94,888)
(18,383)	2,528,272	2,592,445
<u>4,185</u>	<u>75,801</u>	<u>30,715</u>
<u>\$ (12,887)</u>	<u>\$ 2,455,531</u>	<u>\$ 2,528,272</u>

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY FUND

COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended May 31, 2004 and 2003

	Light	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 238,454	\$ (35,013)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	47,034	112,463
Amortization	3,544	-
Changes in assets and liabilities:		
(Increase) decrease in receivables and accruals	41,708	(4,400)
(Increase) decrease in inventories	26,898	-
(Increase) decrease in prepaid expenses	5,137	(1,463)
Increase in accounts payable and accruals	94,122	7,145
Increase (decrease) in liabilities payable from restricted assets	1,900	-
Net cash provided by operating activities	458,797	78,732
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
(Decrease) in amounts due from other funds	-	(80,246)
Increase in amounts due to other funds	9,707	100,320
Operating transfers out	(315,000)	-
Net cash provided by (used in) noncapital financing activities	(305,293)	20,074
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	-	-
Issuance of new bonds	-	-
Acquisition and construction of fixed assets	(21,619)	(6,915)
Principal paid on bonds	(70,000)	(60,000)
Interest paid on bonds and capital lease obligations	(12,695)	(31,891)
Net cash provided by (used in) capital and related financing activities	(104,314)	(98,806)

<u>Water</u>	<u>2004</u>	<u>2003</u>
\$ 40,452	\$ 243,893	\$ 208,062
36,094	195,591	181,787
-	3,544	3,544
(5,200)	32,108	(33,470)
(28,494)	(1,596)	6,613
(804)	2,870	715
6,306	107,573	61,324
<u>-</u>	<u>1,900</u>	<u>(3,900)</u>
<u>48,354</u>	<u>585,883</u>	<u>424,675</u>
(72,672)	(152,918)	-
126,434	236,461	99,843
<u>-</u>	<u>(315,000)</u>	<u>(248,062)</u>
<u>53,762</u>	<u>(231,457)</u>	<u>(148,219)</u>
-	-	667,594
225,000	225,000	-
(7,285)	(35,819)	(873,960)
(46,685)	(176,685)	(159,357)
<u>(40,380)</u>	<u>(84,966)</u>	<u>(88,828)</u>
<u>130,650</u>	<u>(72,470)</u>	<u>(454,551)</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY FUNDS

COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended May 31, 2004 and 2003
(Continued)

	Light	Sewer
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term investments	6,722	-
Interest income	6,292	-
Net cash provided by (used in) investing activities	13,014	-
Net increase in cash and cash equivalents	62,204	-
Cash and cash equivalents:		
Beginning of year	29,592	-
End of year	\$ 91,796	\$ -
Cash and cash equivalents at end of year consist of:		
Restricted cash	\$ 29,107	\$ -
Unrestricted cash	62,689	-
	\$ 91,796	\$ -

<u>Water</u>	<u>2004</u>	<u>2003</u>
(234,005)	(227,283)	151,015
<u>1,239</u>	<u>7,531</u>	<u>33,940</u>
(232,766)	(219,752)	184,955
-	62,204	6,860
<u>-</u>	<u>29,592</u>	<u>22,732</u>
<u>\$ -</u>	<u>\$ 91,796</u>	<u>\$ 29,592</u>

\$ -	\$ 29,107	\$ 25,137
<u>-</u>	<u>62,689</u>	<u>4,455</u>
<u>\$ -</u>	<u>\$ 91,796</u>	<u>\$ 29,592</u>

SUPPLEMENTARY INFORMATION

TOWN OF WELSH, LOUISIANA

SCHEDULE OF COMPENSATION PAID TO GOVERNING BOARD
 Year Ended May 31, 2004

	<u>Salary</u>	<u>Per Diem</u>	<u>Mileage Reimbursement</u>	<u>Total</u>
Mayor:				
Jimmy Cormier	\$ 12,000	\$ 3,300	\$ 805	\$ 16,105
Aldermen:				
Carson Watkins	2,900	-	-	2,900
Carolyn Louviere	2,900	600	-	3,500
Mark Couch	100	-	-	100
Charles Drake	2,900	300	83	3,283
Kent Daniel	2,800	600	-	3,400
Allen Ardoin	<u>2,600</u>	<u>900</u>	<u>83</u>	<u>3,583</u>
	<u>\$ 26,200</u>	<u>\$ 5,700</u>	<u>\$ 971</u>	<u>\$ 32,871</u>

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY ENTERPRISE FUND

SCHEDULE OF NUMBER OF UTILITY CUSTOMERS
May 31, 2004

	<u>Metered</u>	<u>Unmetered</u>
Electricity:		
Industrial	11	-
Commercial	155	-
Residential	1,481	-
Demand	11	-
Water	1,378	2
Sewer	1,220	-

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY ENTERPRISE FUND

ANALYSIS OF ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT
REQUIRED BY SECTION 15 OF 1988 PUBLIC UTILITY REVENUE BOND
Year Ended May 31, 2004

<u>Description</u>		<u>Amount</u>
Land		\$ -
Electricity:		
Distribution system	\$ -	
Equipment	<u>21,619</u>	21,619
Water:		
Distribution system	-	
Equipment	<u>7,285</u>	7,285
Sewer:		
Distribution system	-	
Equipment	<u>6,915</u>	<u>6,915</u>
Total additions		<u>\$ 35,819</u>

TOWN OF WELSH, LOUISIANA

SCHEDULE OF INSURANCE POLICIES IN FORCE
 May 31, 2004

<u>Insurer</u>	<u>Policy Number</u>	<u>Amount of Policy</u>
OVERSIGHT UNIT-TOWN OF WELSH		
Travelers Property Casualty	M5J-BMG-992K888A-TIL-01	\$ 50,000,000
St. Paul Insurance Company	GP09311467	1,000,000
St. Paul Insurance Company	GP09311467	3,364,004
St. Paul Insurance Company	GP09311467	2,000,000
St. Paul Insurance Company	GP09311467	14,983
St. Paul Insurance Company	GP09311467	3,000,000
St. Paul Insurance Company	GP09311467	1,000,000
St. Paul Insurance Company	GP09311467	1,000,000
St. Paul Insurance Company	GP09311467	1,000,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	100,000
St. Paul Insurance Company	GP09311467	7,500
St. Paul Insurance Company	GP09311467	100,000
St. Paul Insurance Company	GP09311467	100,000
St. Paul Insurance Company	GP09311467	100,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	5,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	10,000
St. Paul Insurance Company	GP09311467	10,000
St. Paul Insurance Company	GP09311467	5,000
St. Paul Insurance Company	GP09311467	1,000,000
St. Paul Insurance Company	GP09311467	500,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	25,000
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	10,000

<u>Risk Covered</u>	<u>Policy Expiration Date</u>
Comprehensive equipment coverage	12/09/2004
Auto liability	10/01/2004
Property coverage	10/01/2004
General liability	10/01/2004
<i>Inland marine - contractor's equipment</i>	10/01/2004
Employee benefits liability	10/01/2004
Law enforcement liability	10/01/2004
Management liability	10/01/2004
Employment practices liability	10/01/2004
Commercial crime	10/01/2004
Accounts receivable	10/01/2004
Arson reward	10/01/2004
Building ordinances or laws	10/01/2004
Business income/expense	10/01/2004
Comandeered property	10/01/2004
Communication equipment	10/01/2004
Computer	10/01/2004
Crime reward	10/01/2004
Fairs, exhibits or displays	10/01/2004
Fine arts	10/01/2004
Fire department service charge	10/01/2004
Freestanding signs	10/01/2004
Grounds maintenance equipment	10/01/2004
Inventory and appraisals	10/01/2004
Money and securities (inside limit)	10/01/2004
Money and securities (outside limit)	10/01/2004
Newly acquired property (building for 180 days)	10/01/2004
Newly acquired property (personal property for 180 days)	10/01/2004
Off-premises utility failure - direct damage	10/01/2004
Other people's property	10/01/2004
Outdoor property	10/01/2004
Pairs and sets	10/01/2004
Personal belongings	10/01/2004
Pollution clean up and removal	10/01/2004
Property in transit	10/01/2004
Spoilage	10/01/2004

(continued on next page)

TOWN OF WELSH, LOUISIANA

SCHEDULE OF INSURANCE POLICIES IN FORCE

May 31, 2004

(Continued)

<u>Insurer</u>	<u>Policy Number</u>	<u>Amount of Policy</u>
St. Paul Insurance Company	GP09311467	50,000
St. Paul Insurance Company	GP09311467	100,000
St. Paul Insurance Company	GP09311467	50,000
National Union Fire Insurance Co.	AP3391651-06	1,000,000
National Union Fire Insurance Co.	2219-5646C-04	75,000
American Alternative Insurance Company	VFIS-CL-0019146-03	2,000,000
American Alternative Insurance Company	VFIS-CM-1010539-03	1,000,000
American Alternative Insurance Company	VFIS-CU-5006590-03	2,000,000
Risk Management, Inc.	5646C-03	500,000
C.N.A. Surety	3269088	82,560
Western Surety	69095816	5,000

<u>Risk Covered</u>	<u>Policy Expiration Date</u>
Temporary location	10/01/2004
Valuable records research	10/01/2004
Water damage	10/01/2004
Airport owners, landlords, and tenant liability - each occurrence	01/01/2005
Accident and sickness	07/06/2004
General liability	10/07/2004
Auto liability - each accident	10/07/2004
Umbrella	10/07/2004
Worker's compensation	01/13/2005
Public employee blanket bond - Town Clerk	02/10/2005
Public employee blanket bond - Police Chief	01/01/2005

REPORT OF INDEPENDENT AUDITORS
ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE

McELROY, QUIRK & BURCH

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Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFPTM
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Otray J. Woods Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

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

Honorable Mayor
and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the financial statements of the Town of Welsh, Louisiana as of and for the year ended May 31, 2004, and have issued our report thereon dated July 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Welsh'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 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 Town of Welsh'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 Town of Welsh's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we considered item 04-1 to be a material weakness.

This report is intended for the information of the Board, management, and other state and federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

M^c Elroy, Quirk & Beach

Lake Charles, Louisiana
July 26, 2004

TOWN OF WELSH, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issues: Unqualified
Internal control over financial reporting:
Material weakness identified? Yes No
Reportable condition identified not considered
to be material weakness? Yes None reported
Noncompliance material to financial statements
noted? Yes No

Federal Awards

Internal control over major programs:
Material weakness identified? Yes No
Reportable condition identified not considered
to be material weakness? Yes 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 No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.219	Department of Housing and Urban Development: Community Development Block Grant Funds

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

(continued on next page)

TOWN OF WELSH, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended May 31, 2004

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

04-1 Segregation of Duties

Condition: Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Criteria: Effective internal control requires adequate segregation of duties among client personnel.

Effect: Without proper segregation of duties, errors within the financial records or fraud could go undetected.

Recommendation: To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Response: We concur with this recommendation. However, it is not cost effective to hire additional personnel to insure proper segregation of duties. The Town is in the process of implementing supervision and review procedures.

TOWN OF WELSH, LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
Year Ended May 31, 2004

03-1 Segregation of Duties

Condition: This finding was a reportable condition and a material weakness relating to the entity's size and limited number of accounting personnel which made it impossible to achieve effective internal accounting control.

Recommendation: Since increasing staff size would not be cost effective, the auditor recommends that the Town's management mitigate this weakness by its supervision and review procedures.

Current status: This condition still exists, however, the Town has implemented supervision and review procedures as recommended.