

# *Sorrento*<sup>®</sup>

LOUISIANA

## FINANCIAL STATEMENTS

June 30, 2018

# TOWN OF SORRENTO, LOUISIANA

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the Town Council  
Sorrento, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Sorrento, Louisiana (the Town), as of and for the year then ended, June 30, 2018, and the related notes to the financial statement, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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 statements contained in *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Sorrento, Louisiana, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, and schedule of pension contributions on pages 3 through 11 and 47 through 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sorrento, Louisiana's basic financial statements. The schedule of compensation, benefits and other payments to agency heads is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, and the benefits and other payments to agency heads is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to agency heads is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of the Town of Sorrento, Louisiana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Sorrento, Louisiana's internal control over financial reporting and compliance.



November 2, 2018  
Gonzales, Louisiana

# **TOWN OF SORRENTO, LOUISIANA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our analysis of The Town of Sorrento's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2018. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. This MD&A should be read in conjunction with the financial statements which begin on Exhibit A.

### **FINANCIAL HIGHLIGHTS**

In 2018, the Town of Sorrento experienced a decrease in governmental activity net position of \$68,000 as governmental activities expenses exceed governmental activities revenues. Business-type activities of the Town experienced a deficit of \$92,000 due to depreciation expense recognized on capital assets of \$81,000 and transfers increasing by \$8,000. Operating revenues remained flat from prior year while operating expenses decreased by \$8,000.

The major financial highlights for 2018 are as follows:

#### **Government-wide financial statements**

- Assets and deferred outflows of the Town's primary government exceeded its liabilities and deferred inflows at the close of the year by approximately \$2.9 million (net position). Of this amount, approximately \$460,000 (unrestricted net position) may be used without restrictions to meet the Town's ongoing obligations to citizens and creditors.
- Governmental activities net position decreased by approximately \$68,000, whereas business-type total net position decreased by approximately \$92,000 primarily due to depreciation expense of \$81,000.

#### **Governmental Fund financial statements**

- As of the end of the year, the government's General Fund reported a fund balance of approximately \$810,000, a decrease of approximately \$33,000 in comparison to the prior year due to a decrease in grants and contributions of \$180,000 related to monies the Town received for flood recovery efforts. Approximately 46% of the fund balance is restricted for purposes related to recreation, public safety, senior citizen programs and other purposes.

Significant aspects of the Town's financial well-being, as of and for the year ended June 30, 2018, are detailed throughout this analysis.

## USING THIS ANNUAL REPORT

The Town's financial statements focus on the government as a whole and on major individual funds. Both government-wide and fund perspectives allow the reader to address relevant questions, broaden a basis for comparison from year to year and should enhance the Town's accountability.

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances.

Fund financial statements start on page 15. For governmental activities, these statements depict how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

The Town's auditor has provided assurance in their independent auditors' report, located immediately preceding this MD&A, that the financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplemental Information. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each part of this report.

### **Reporting on the Town as a Whole**

The analysis of the Town as a whole begins on page 13. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and its activities in a way to determine if the Town is in better condition, compared to the prior year. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to accounting methods used by most private-sector companies. All of the current year's revenues and expenses are reported regardless of when cash is received or paid. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

These two statements report the Town's net position and related changes. The Town's financial health, or financial position, can be measured by its net position—the difference between assets plus deferred outflows and liabilities plus deferred inflows. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors should be considered such as changes in the Town's property and sales tax base and the condition of the Town's buildings, to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, the Town's operations are divided into two kinds of activities:

**Governmental activities** – Most of the Town’s basic services are reported here, including public safety, highway and streets, culture and recreation, and general administration. Property and sales taxes, franchise taxes and fines finance most of these activities.

**Business-type activities** – The Town charges a fee to customers to fund the cost of certain services it provides. The Town maintains garbage pickup, sewer operations and leases a water distribution system. The business-type activities have historically generated an operating deficit, primarily due to sewer system repairs and depreciation expense recognized on the Town's water and sewer systems.

At June 30, 2018, the Town’s net position was approximately \$2.9 million, of which approximately \$460,000 was unrestricted. Restricted net position of \$357,000 is reported separately to show legal constraints from legislation that limits the Town’s ability to use the net position for day-to-day operations.

The analysis of the primary government focuses on the net positions and change in net position of the Town’s governmental and business-type activities and is as follows:

Town of Sorrento, Louisiana  
Statement of Net Position  
June 30, 2018 and 2017  
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 899	\$ 983	\$ 48	\$ 57	\$ 947	\$ 1,040
Capital assets	1,072	1,138	1,143	1,224	2,215	2,362
Deferred outflows	2	3	-	-	2	3
Total assets and deferred outflows	<u>1,973</u>	<u>2,124</u>	<u>1,191</u>	<u>1,281</u>	<u>3,164</u>	<u>3,405</u>
Current and other liabilities	90	140	30	28	120	168
Long-term liabilities	124	157	-	-	124	157
Total liabilities and deferred inflows	<u>214</u>	<u>297</u>	<u>30</u>	<u>28</u>	<u>244</u>	<u>325</u>
Net position:						
Net investment in capital assets	960	994	1,143	1,224	2,103	2,218
Restricted	357	376	-	-	357	376
Unrestricted	<u>442</u>	<u>457</u>	<u>18</u>	<u>29</u>	<u>460</u>	<u>486</u>
Total net position	<u>\$ 1,759</u>	<u>\$ 1,827</u>	<u>\$ 1,161</u>	<u>\$ 1,253</u>	<u>\$ 2,920</u>	<u>\$ 3,080</u>

Net position of the Town’s governmental activities decreased by approximately \$68,000 during 2018. Unrestricted net position represents the part of net position that can be used to finance day-to-day operations without constraints established by legislation or other legal requirements. The \$442,000 in unrestricted net position of governmental activities represents the accumulated results of operations. The changes in net position are discussed later in this analysis.

The net position of the Town's business activities decreased by approximately \$92,000 during 2018 due to depreciation expense of \$81,000. The Town operates sewer and garbage services and leases a water distribution system to a private contractor which pays the Town franchise fees.

The results of this year's operations for the primary government as a whole, as reported in the Statement of Activities, are as follows:

Town of Sorrento						
Changes in Net Position						
For the years ended June 30, 2018 and 2017						
(in thousands)						
	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 154	\$ 131	\$ 184	\$ 183	\$ 338	\$ 314
Operating grants and contributions	16	126	-	19	16	145
Capital grants and contributions	-	25	-	-	-	25
General revenues:						
Ad valorem taxes	60	62	-	-	60	62
Sales taxes	660	647	-	-	660	647
Franchise taxes	90	97	-	-	90	97
Other and transfers	21	25	(14)	(6)	7	19
Total revenues	<u>1,001</u>	<u>1,113</u>	<u>170</u>	<u>196</u>	<u>1,171</u>	<u>1,309</u>
Functions/Program expenses:						
General government	288	248	-	-	288	248
Public safety	412	416	-	-	412	416
Highway and streets	283	419	-	-	283	419
Culture and recreation	83	75	-	-	83	75
Interest on long-term debt	3	4	-	-	3	4
Utility operations	-	-	262	270	262	270
Total expenses	<u>1,069</u>	<u>1,162</u>	<u>262</u>	<u>270</u>	<u>1,331</u>	<u>1,432</u>
Change in net position	(68)	(49)	(92)	(74)	(160)	(123)
Beginning net position	<u>1,827</u>	<u>1,876</u>	<u>1,253</u>	<u>1,327</u>	<u>3,080</u>	<u>3,203</u>
Ending net position	<u>\$ 1,759</u>	<u>\$ 1,827</u>	<u>\$ 1,161</u>	<u>\$ 1,253</u>	<u>\$ 2,920</u>	<u>\$ 3,080</u>

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is on major funds, rather than generic fund types.

### **Reporting the Town's Most Significant Funds**

The analysis of the Town's major funds begins on page 15 with the fund financial statements that provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law or by bond covenants. However, the Town Council establishes other funds to control and manage money for particular purposes or meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds—governmental and proprietary—use different accounting approaches.

**Governmental funds**—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Most of the Town's basic services are reported in governmental funds. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation to the financial statements. The governmental major funds (Exhibits A-2 and A-4) presentation is presented using modified accrual basis and focuses on the major funds of the Town. The Town has one governmental fund, which is the General Fund.

**Proprietary funds**—When the Town charges customers for the services it provides—whether to outside customers or to other units of the Town—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The Town has one proprietary fund, which is the Utility Fund.

**Notes to the financial statements**—The notes provide information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-9.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning original and final budgetary comparisons to actual results for the year for the Town’s major governmental fund, which is the General Fund.

**Financial Analysis of the Government's Funds**

The general government operations of the Town are accounted for in the General Fund. The focus of this fund, as noted earlier, is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town’s financing requirements. The following is a summary of general governmental operations:

	(in thousands)	
	General Fund	
	2018	2017
Revenues	\$ 987	\$ 1,143
Expenditures	1,034	1,195
Excess (deficiency) of revenues over expenditures	(47)	(52)
Other financing sources	14	31
Net change in fund balance	(33)	(21)
Beginning fund balance	843	864
Ending fund balance	\$ 810	\$ 843

The Town’s General Fund experienced a decrease in fund balance of approximately \$33,000 during 2018, which is primarily related to engineering fees related to flood recovery efforts of \$30,000 and decrease in grants and contributions of \$180,000. At year end, fund balance was approximately \$810,000, of which approximately \$453,000 was unassigned and available for utilization at the Town’s discretion. Of the remaining balance, approximately \$356,000 relates to restricted fund balances where constraints have been established by parties outside the Town by enabling legislation.

(Continued)

Sources of governmental revenues, excluding other financing sources, are summarized below.

<u>Source of Revenue</u>	(In thousands)			
	2018		2017	
Taxes	\$ 813	82%	\$ 810	71%
Licenses and permits	122	12%	110	10%
Intergovernmental	16	2%	196	17%
Other revenues	<u>36</u>	<u>4%</u>	<u>27</u>	<u>2%</u>
Total	<u>\$ 987</u>	<u>100%</u>	<u>\$ 1,143</u>	<u>100%</u>

Revenues of the primary government for governmental fund types for 2018 were approximately \$987,000 compared to approximately \$1,143,000 for the previous year. The Town's total revenue decreased by \$156,000 due to a decrease in grants and contributions totaling \$180,000. As noted above, the Town's activities are largely supported by tax revenues, which represent 82% of total governmental resources.

<u>Function</u>	(In thousands)			
	2018		2017	
General government	\$ 267	26%	\$ 227	19%
Public safety	412	40%	468	39%
Highways and streets	240	23%	378	32%
Culture and recreation	58	6%	51	4%
Debt service	35	3%	38	3%
Capital outlay	22	2%	33	3%
Total	<u>\$ 1,034</u>	<u>100%</u>	<u>\$ 1,195</u>	<u>100%</u>

Expenditures of the primary government decreased in 2018 by \$161,000 or 14%. The change is related to decreased Highway and Street expenditures of \$138,000 and a decrease in public safety expenditures of \$56,000 and increase in general government of \$40,000.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year the Town’s General Fund’s budget was amended. The amendment of the operating budget is a customary practice of the Town for changes that occur with financial related matters throughout the fiscal year. The most significant changes during 2018 were as follows:

- A decrease in intergovernmental grants revenue of \$20,000,
- An increase in sales and use tax revenue of \$14,000,
- An increase in general government expenditures of \$13,000,
- An increase in highways and street expenditures of \$60,000, and
- An increase in capital outlay expenditures of \$10,000.

Overall, the increases to appropriations (expenditures) were \$102,000 that resulted in the final budget appropriation of approximately \$1,064,850.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2018, the Town had approximately \$2.2 million invested in a range of capital assets, including vehicles, fire equipment, computer equipment, office furniture, land, buildings, water distribution systems, and sewer treatment systems. This amount represents a net decrease of \$147,000, or 6%, from last year.

	(in thousands)					
	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 128	\$ 128	\$ 60	\$ 60	\$ 188	\$ 188
Construction in progress	-	-	-	-	-	-
Infrastructure	41	51	-	-	41	51
Buildings and improvements	657	676	192	211	849	887
Improvements other than buildings	23	26	-	-	23	26
Equipment and vehicles	222	257	-	-	222	257
Sewer system	-	-	539	571	539	571
Water distribution system	-	-	352	381	352	381
Total assets, net of depreciation	<u>\$ 1,071</u>	<u>\$ 1,138</u>	<u>\$ 1,143</u>	<u>\$ 1,223</u>	<u>\$ 2,214</u>	<u>\$ 2,361</u>

The Town elected to capitalize infrastructure assets on a prospective basis as a Phase 3 government, which is provided by GASB No. 34. More detailed information about the Town’s capital assets is presented in Note 7 to the financial statements.

## Debt

At the end of 2018, the Town had \$124,000 in debt outstanding compared to \$157,000 at the end of 2017, a decrease of \$33,000, as shown below:

	<u>Outstanding</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Installment purchase agreement	\$ 143,745	\$ -	\$ 31,740	\$ 112,005	\$ 38,417
Net pension liability	<u>12,957</u>	<u>-</u>	<u>1,273</u>	<u>11,684</u>	<u>-</u>
	<u>\$ 156,702</u>	<u>\$ -</u>	<u>\$ 33,013</u>	<u>\$ 123,689</u>	<u>\$ 38,417</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget and tax rates. One of those factors is the economy. The largest taxpayers in the surrounding area are primarily companies involved in the oil refining and petrochemical processing sector. These companies impact the local economy of the Town and its businesses. These industrial companies are significantly impacted by the change national economy and related production demands. As a result, the local economy can be impacted.

An important factor affecting the General Fund budget is the Town's sales tax collections that approximate 66% of budgeted revenue. The Town budgeted a decrease in overall revenue of approximately \$29,000 for 2019 compared to actual 2018 results, due to an expected decrease in licenses and permits and charges for services in 2019. Additionally, the Town is projecting a decrease in expenditures of \$44,000. If these estimates are realized during 2019, fund balance for the Town's General Fund will decrease by approximately \$16,000 as compared to a decrease of approximately \$33,000 during 2018.

### **Contacting the Town's Financial Management**

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show accountability for the money the Town receives. Questions about this report or need additional financial information, contact the Town's Finance Office at (225) 675-5337 or P.O. Box 65, Sorrento, LA 70778.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF SORRENTO, LOUISIANA**  
**STATEMENT OF NET POSITION**

June 30, 2018

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 382,330	\$ 93,096	\$ 475,426
Accounts receivable, net	19,355	12,228	31,583
Internal balances	74,993	(74,993)	-
Due from other governments	66,085	2,238	68,323
Restricted cash	356,603	15,820	372,423
Capital assets:			
Non-depreciable	127,750	60,366	188,116
Depreciable, net	943,891	1,082,281	2,026,172
Total assets	<u>1,971,007</u>	<u>1,191,036</u>	<u>3,162,043</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension liability	<u>1,672</u>	<u>-</u>	<u>1,672</u>
Total assets and deferred outflows of resources	<u>\$ 1,972,679</u>	<u>\$ 1,191,036</u>	<u>\$ 3,163,715</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 63,855	\$ 14,413	\$ 78,268
Payable from restricted assets	26,163	16,042	42,205
Long-term liabilities:			
Due within one year	38,417	-	38,417
Due in more than one year	73,588	-	73,588
Net pension liability	11,684	-	11,684
Total liabilities	<u>213,707</u>	<u>30,455</u>	<u>244,162</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension liability	<u>253</u>	<u>-</u>	<u>253</u>
Total liabilities and deferred inflows of resources	<u>213,960</u>	<u>30,455</u>	<u>244,415</u>
<b>NET POSITION</b>			
Net investment in capital assets	959,636	1,142,647	2,102,283
Restricted for:			
Recreational services	201,584	-	201,584
Public safety	89,065	-	89,065
Senior citizen assistance	56,455	-	56,455
Other purposes	9,500	-	9,500
Unrestricted	442,479	17,934	460,413
Total net position	<u>1,758,719</u>	<u>1,160,581</u>	<u>2,919,300</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,972,679</u>	<u>\$ 1,191,036</u>	<u>\$ 3,163,715</u>

Notes on Exhibit A-9 are an integral part of this statement.

## TOWN OF SORRENTO, LOUISIANA

### STATEMENT OF ACTIVITIES

For the year ended June 30, 2018

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Functions/Programs</b>						
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 287,740	\$ 135,890	\$ 15,817	\$ (136,033)	\$ -	\$ (136,033)
Public safety:						
Police	366,001	952	-	(365,049)	-	(365,049)
Fire	45,934	-	-	(45,934)	-	(45,934)
Highway and streets	283,612	-	-	(283,612)	-	(283,612)
Culture and recreation	82,852	16,660	-	(66,192)	-	(66,192)
Interest on long-term debt	2,834	-	-	(2,834)	-	(2,834)
<b>Total governmental activities</b>	<u>1,068,973</u>	<u>153,502</u>	<u>15,817</u>	<u>(899,654)</u>	<u>-</u>	<u>(899,654)</u>
Business-type activities:						
Utility operations	262,486	184,497	15	-	(77,974)	(77,974)
<b>Total primary government</b>	<u>\$ 1,331,459</u>	<u>\$ 337,999</u>	<u>\$ 15,832</u>	<u>(899,654)</u>	<u>(77,974)</u>	<u>(977,628)</u>
General revenues:						
Taxes:						
Sales				659,939	-	659,939
Franchise				90,477	-	90,477
Ad valorem				60,080	-	60,080
Other				1,968	-	1,968
Investment income				2,438	155	2,593
Miscellaneous				2,466	-	2,466
Transfers				14,400	(14,400)	-
<b>Total general revenues</b>				<u>831,768</u>	<u>(14,245)</u>	<u>817,523</u>
<b>Change in net position</b>				<u>(67,886)</u>	<u>(92,219)</u>	<u>(160,105)</u>
<b>Net position - beginning of year</b>				<u>1,826,605</u>	<u>1,252,800</u>	<u>3,079,405</u>
<b>Net position - end of year</b>				<u>\$ 1,758,719</u>	<u>\$ 1,160,581</u>	<u>\$ 2,919,300</u>

Notes on Exhibit A-9 are an integral part of this statement.

# TOWN OF SORRENTO, LOUISIANA

## BALANCE SHEET GOVERNMENTAL FUND

June 30, 2018

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 382,330
Accounts receivable, net	19,355
Due from Utility Fund	74,993
Due from other governments	66,085
Restricted cash	<u>356,603</u>
Total assets	<u>\$ 899,366</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 63,632
Payable from restricted assets	<u>26,163</u>
Total liabilities	<u>89,795</u>
<b>FUND BALANCE</b>	
Restricted for:	
Recreational services	201,584
Public safety	89,065
Senior citizen assistance	56,455
Other purposes	9,500
Unassigned	<u>452,967</u>
Total fund balance	<u>809,571</u>
Total liabilities and fund balance	<u>\$ 899,366</u>

Notes on Exhibit A-9 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA**

**RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total net position reported for governmental activities in the statement of net position is different because:

Total fund balance - governmental fund (Exhibit A-2)	\$	809,571
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.		1,071,641
Long-term liabilities (e.g. leases), that are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Accrued interest payable	(223)	
Installment purchase agreement	(112,005)	(112,228)
Pension related obligations are not due and payable with current resources and, therefore, are not reported in governmental funds.		
Net pension liability	\$ (11,684)	
Deferred outflows related to pension liability	1,672	
Deferred inflows related to pension liability	(253)	(10,265)
Net position of governmental activities (Exhibit A)	\$	1,758,719

## TOWN OF SORRENTO, LOUISIANA

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

For the year ended June 30, 2018

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes:	
Sales and use	\$ 659,939
Franchise	90,477
Ad valorem	60,080
Other	1,968
Licenses and permits	122,292
Charges for services	30,258
Fines	952
Grants and contributions	15,817
Investment income	2,438
Miscellaneous	<u>2,466</u>
Total revenues	<u>986,687</u>
<b>EXPENDITURES</b>	
Current function:	
General government	267,591
Public safety:	
Police	366,001
Fire	45,934
Highways and streets	240,253
Culture and recreation	58,077
Debt service:	
Principal	31,740
Interest	2,834
Capital outlay	<u>22,012</u>
Total expenditures	<u>1,034,442</u>
Deficiency of revenues over expenditures	(47,755)
<b>OTHER FINANCING SOURCES</b>	
Transfers in	<u>14,400</u>
Net change in fund balance	(33,355)
<b>FUND BALANCE</b>	
Beginning of year	<u>842,926</u>
End of year	<u><u>\$ 809,571</u></u>

Notes on Exhibit A-9 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO  
THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2018

The change in net position reported for governmental activities in the statement of activities is different because:

Net change in fund balance - total governmental fund (Exhibit A-4)		\$	(33,355)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay.</p>			
Capital outlay	22,012		
Depreciation expense	<u>(88,153)</u>		(66,141)
Principal payments on capital leases			31,740
Accrued interest expense			(223)
Changes in net pension obligations are reported only in the Statement of Activities.			<u>93</u>
Change in net position of governmental activities (Exhibit A-1)		\$	<u>(67,886)</u>

**TOWN OF SORRENTO, LOUISIANA  
PROPRIETARY FUND - UTILITY FUND**

**STATEMENT OF NET POSITION**

June 30, 2018

**ASSETS**

Current assets:

Cash and cash equivalents	\$	93,096
Accounts receivable, net		12,228
Restricted cash - utility deposits		15,820
Due from other governments		2,238
Total current assets		123,382

**NONCURRENT ASSETS**

Capital assets:

Non-depreciable		60,366
Depreciable, net		1,082,281

Total noncurrent assets		1,142,647
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Total assets	\$	1,266,029
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**LIABILITIES**

Current liabilities:

Accounts payable	\$	14,413
Due to General Fund		74,993
Payable from restricted assets		16,042

Total current liabilities		105,448
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**NET POSITION**

Investment in capital assets		1,142,647
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Unrestricted		17,934
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Total net position		1,160,581
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Total liabilities and net position	\$	1,266,029
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**TOWN OF SORRENTO, LOUISIANA  
 PROPRIETARY FUND - UTILITY FUND  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET POSITION**

For the year ended June 30, 2018

**OPERATING REVENUES**

Charges for services:

Garbage	\$ 116,576
Sewer	57,033
Penalties	4,399
Water franchise fees	6,489
Other Income	15
	<hr/>

Total operating revenues	<hr/> 184,512
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**OPERATING EXPENSES**

Garbage	101,601
Sewer	76,630
Administrative	3,476
Depreciation	80,779
	<hr/>

Total operating expenses	<hr/> 262,486
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Operating loss	(77,974)
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**NONOPERATING REVENUES**

Interest income	<hr/> 155
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Loss before transfers	(77,819)
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Transfers out	<hr/> (14,400)
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Change in net position	(92,219)
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**NET POSITION**

Beginning of year	<hr/> 1,252,800
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End of year	<hr/> <hr/> \$ 1,160,581
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Notes on Exhibit A-9 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA  
PROPRIETARY FUND - UTILITY FUND**

**STATEMENT OF CASH FLOWS**

For the year ended June 30, 2018

	<b>Business-type Activities - Enterprise Fund</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 185,058
Payments to suppliers	<u>(187,675)</u>
Net cash used by operating activities	<u>(2,617)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Receipts from other governments	16,867
Transfers to other funds	<u>(14,400)</u>
Net cash provided by noncapital and related financing activities	<u>2,467</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>155</u>
Net increase in cash	5
<b>CASH</b>	
Beginning of period	<u>108,911</u>
End of period	<u>\$ 108,916</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (77,974)
Adjustments for non-cash items:	
Depreciation	80,779
Change in operating assets and liabilities:	
Accounts receivable and other assets	546
Due to/from other funds	(8,507)
Accounts payable and accrued liabilities	<u>2,539</u>
Net cash used by operating activities	<u>\$ (2,617)</u>
<b>RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION:</b>	
Cash	\$ 93,096
Restricted cash	<u>15,820</u>
Total cash on statement of cash flows	<u><u>108,916</u></u>

Notes on Exhibit A-9 are an integral part of this statement.

## **TOWN OF SORRENTO, LOUISIANA**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement Presentation**

Located in Ascension Parish, the Town of Sorrento was incorporated in 1956 and is a political subdivision of the State of Louisiana. The Town, under the provisions of the Lawrason Act, enacts ordinances, sets policy, and establishes programs in such fields as public safety, highways and streets, and culture and recreation.

The financial statements of the Town of Sorrento, Louisiana (the Town) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are described below.

The financial statements comply with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) and include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations,
- Financial statements prepared using accrual accounting for all of the Town’s activities, including infrastructure (roads, bridges, etc.), and
- Fund financial statements to focus on the major funds.

##### **Reporting Entity**

As the municipal governing authority, for reporting purposes, the Town is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary municipal government, and where applicable (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Reporting Entity (Continued)

The criteria for determining which component units should be considered part of the Town for financial reporting purposes are as follows:

- Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name;
- Whether the Town governing authority (the Council and/or Mayor) appoints a majority of board members of the potential component unit;
- Fiscal interdependency between the Town and the potential component unit;
- Imposition of will by the Town on the potential component unit; and
- Financial benefit/burden relationship between the Town and the potential component unit.

As required by generally accepted accounting principles, these financial statements present the Town; there are no component units to be either blended within the Town's funds or discretely presented in these financial statements.

### Basis of Presentation

The Town's basic financial statements consist of the government-wide statements of the primary government (the Town) and the fund financial statements (individual major funds). The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and applied to governmental units.

### Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities for all non-fiduciary activities of the Town. As a general rule, the effect of interfund activity has been removed from these statements. The government-wide presentation focuses primarily on the sustainability of the government as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These statements distinguish between the governmental and business-type activities of the Town.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide Financial Statements (Continued)**

*Governmental activities* generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

*Business type activities* are financed in whole or part by fees charged to external parties for utility services provided. The Town's sewer, water, and garbage services are classified as business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

The fund financial statements are very similar to the traditional government fund statements as prepared by governments prior to the issuance of GASB No. 34. Emphasis is now on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column in the basic financial statements. The Town does not have any non-major funds in 2018.

The daily operations of the Town continue to be organized on the basis of funds, 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, equity, revenues and expenditures or expenses, as appropriate. Funds are organized into three major categories: governmental, proprietary and fiduciary. The Town does not have any fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories.

(Continued)

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Fund Financial Statements (continued)**

A fund is considered major if it is the primary operating fund of the Town (the General Fund) or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures/expense of that individual governmental fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues, or expenditures/expense of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The various funds of the primary government presented in the financial statements are described as follows:

#### ***Governmental Fund Types***

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use, and balances of expendable financial resources and related liabilities of the Town are accounted for through governmental funds. Measurement is focused upon determining changes in financial position, rather than net income. The following are the governmental fund types of the Town:

***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. The General Fund is always a major fund.

#### ***Proprietary Fund Types***

***Enterprise Funds*** - Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs and 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 (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Town considers the Utility Fund a major fund.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting and Measurement Focus**

*Government-wide financial statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are assessed. Program revenues for governmental activities include operating and capital grants, occupational licenses and permits, and special assessments.

*Fund financial statements*

All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Governmental funds are maintained on the modified accrual basis of accounting. Governmental fund revenues resulting from exchange transactions are recognized in the fiscal year in which the exchange takes place and meets the government's availability criteria (susceptible to accrual). "Available" means collectible within the current period or within 60 days after year-end. Charges for services, traffic fines, and governmental miscellaneous revenues, are recorded as earned since they are measurable and available.

Nonexchange transactions, in which the Town receives value without directly giving value in return, includes sales tax, ad valorem tax, federal and state grants, and special assessments. Ad valorem taxes are recorded in the year the taxes are assessed. Ad valorem taxes are assessed on a calendar year basis, become due on November 15th of each year, and become delinquent after December 31st. The taxes are generally collected in December of the current year and January and February of the following year. Sales taxes are recorded when in the possession of the intermediary collecting agent and are recognized as revenue at that time. Federal and state grants are recorded as revenue when the Town is entitled to the funds, generally corresponding to when grant related costs are incurred by the Town, but subject to the availability criteria. Special assessments are recorded when the Town has an enforceable legal claim on those resources.

Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) unmatured interest on general long-term debt which is recognized when due, and (2) claims and judgments and compensated absences are recorded as expenditures in the governmental fund type when paid with expendable financial resources. Allocations of costs such as depreciation and amortization are not recognized in the governmental funds.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting and Measurement Focus (continued)**

*Fund financial statements (continued)*

All proprietary funds are accounted for on a flow of economic resources measurement focus. Proprietary funds are maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

**Cash and Cash Equivalents**

Cash and cash equivalents for the Town include the Louisiana Asset Management Pool (LAMP) account and each individual fund's share of the consolidated operating cash accounts.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The investment policy of the Town is governed by state statutes that include depository and custodial contract provisions. The Town invests funds in accordance with L.R.S. 39:1211-1245 and 33:2955 which include, but are not limited to, United States treasury bonds, treasury notes, treasury bills, and fully collateralized interest-bearing checking accounts and certificates of deposit. Other provisions require depositories to insure or collateralize all deposits in accordance with state law and require securities collateralizing deposits to be held by an independent third party with whom the Town has a custodial agreement. The Town primarily utilizes the Louisiana Asset Management Pool to invest idle funds and records amounts invested at fair value.

For purposes of the Statement of Cash Flows, liquid investments of the enterprise fund with a maturity of three months or less are considered to be cash equivalents. See Note 2.

**Accounts Receivable**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. For governmental activities, uncollectible amounts due for receivables are recognized as bad debts and directly charged off at the time information becomes available which indicates that the particular receivable is not collectible. In governmental fund types, the uncollectible amount is charged to the revenue reported. In business-type activities, uncollectible amounts due from utility billing receivables are recognized as bad debts through the use of an allowance account or are directly charged off at the time information becomes available which indicates that the particular receivable is not collectible. An allowance for doubtful accounts of \$100,000 and \$3,700 in the General Fund and Utility Fundy, respectively, was recorded at June 30, 2018.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interfund Receivables/Payables**

During the course of operations, transactions may occur between individual funds. Those related to short-term borrowings are classified as “due from other funds” or “due to other funds” on the balance sheet. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” The Utility Fund owed the General Fund \$74,993 at June 30, 2018.

**Capital Assets**

The accounting treatment of property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

***Government-wide Statements***

In the government-wide financial statements, capital assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed. Major outlays for capital assets and improvements are capitalized at completion of construction projects.

Prior to the implementation of GASB 34, governmental funds' infrastructure assets were not capitalized. The Town has elected to capitalize infrastructure expenditures on a prospective basis.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Infrastructure	15 years
Buildings	25 - 40 years
Improvements	10 years
Machinery and equipment	3 - 20 years

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

***Fund Financial Statements***

In the fund financial statements, capital assets used in governmental fund operations are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds. Capital assets used in proprietary fund operations are accounted for in the same manner as in government-wide statements.

Property, plant, and equipment used by the proprietary funds are stated at cost. Interest costs incurred during construction periods are capitalized. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Lines, meters, & sewer systems	50 years
Water well, tank & pump	10 - 25 years
Equipment	5 - 20 years

**Compensated Absences**

The Town has the following policy relating to vacation and sick leave:

Each full time employee is entitled to 10 days vacation and 5 days sick leave for each year worked. For those full time employees hired prior to August 18, 1992, vacation benefits increase after 10 years worked to 15 days, and after 15 years worked to 20 days. These benefits are non-cumulative and must be taken when due. As a result, no liability is recorded in these financial statements.

**Pensions**

For purposes of measuring the net position liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Louisiana State Employees' Retirement System (LASERS) and additions to/deductions from LASERS fiduciary net position have been determined on the same basis as they are reported by LASERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows and Inflows of Resources**

In addition to assets, the Statement of Net Position or Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The Town has one item that qualifies for this category, which is deferred outflows related to pension liability and reported in the government-wide statement.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Deferred Outflows and Inflows of Resources (Continued)**

In addition to liabilities, the Statement of Net Position or Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) at that time. The amounts deferred and recognized as an inflow of resources in the period that the amounts become available.

### **Government-wide and Proprietary Fund Net Position**

Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted - consist of net position that is restricted by the Town Charter, the Town Code, Town's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

### ***Use of Restricted Resources***

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to reduce restricted net assets followed by unrestricted net assets.

### **Governmental Fund Balances**

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution.
- Assigned - Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Town Council.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Governmental Fund Balances (Continued)**

- Unassigned - All amounts not included in other spendable classifications.

### *Use of Restricted Resources*

When an expense is incurred that can be paid using either restricted or unrestricted resources (fund balance), the Town's policy is to apply the expenditure in the following priority: 1) restricted fund balance, 2) committed fund balance, 3) assigned fund balance, and 4) unassigned fund balance.

### **Interfund Transfers**

Advances between funds which are not expected to be repaid are accounted for as transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

In those cases where repayment is expected, the advances are accounted for through the various interfund accounts.

### **Budget Policy and Budgetary Accounting**

A proposed budget is prepared and submitted by the Mayor to the Town Council prior to the beginning of each fiscal year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

The annual operating budget, prepared on the modified-accrual basis, covers the General Fund. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Town Council and are included in the financial statements.

In connection with budget preparation, a portion of the unassigned fund balance of an individual fund may be designated for expenditures of the subsequent year. Such designation represents the extent to which the fund balance is used to balance the subsequent year's operating budget of that fund, as reflected in the legally adopted budget.

### **Restricted Cash**

Restricted cash on the balance sheet of the General Fund represents cash received from the restricted sales tax for the purposes of recreation, fire protection and senior citizen programs. Additionally, amounts collected by the Town for utility deposits, special assessments, bail bonds, and confiscated property have been classified as restricted.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses of proprietary funds and the government-wide financial statements during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for the allowance for uncollectible accounts and depreciation.

**Subsequent Events**

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through November 2, 2018, the date the financial statements were available to be issued. No significant subsequent events were noted.

**NOTE 2 - CASH AND INVESTMENTS**

The Town may invest in United States bonds, treasury notes, or certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana or other qualifying federally insured investments.

Custodial credit risk is the risk that in the event of a financial institution failure, the Town's deposits may not be returned to them. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent financial institution. As of June 30, 2018, the Town's deposits were not exposed to any custodial risk. As of June 30, 2018, the Town had a balance of \$171,572 invested in LAMP.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pools 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 in accordance with LA – R.S. 33:2955 that operates in conformity with Rule 2a7 of the Securities and Exchange Commission that governs the accounting practice of investment pools.

(Continued)

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

LAMP is an investment pool with the following characteristics:

- The value of the portfolio is carried at amortized cost.
- Credit risk: LAMP is rated AAAm by Standard & Poor's.
- Custodial risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

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. The fair value of investments is determined on a weekly basis to monitor any variances between amortized cost and fair value. For purposes of determining participants' shares, investments are valued at amortized cost. The fair value of the participant's position is the same as the value of the pool shares. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

Investment by the Town in the LAMP pool is considered unclassified as to credit risk provided by GASB Codification Section 150.125 because the investment is in a pool of funds and therefore not evidenced by securities that exist in physical or book form.

The government's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name, or (3) uninsured and unregistered for which securities are held by the broker or dealer, or by its trust department or agent but not in the government's name.

**NOTE 3 - CONCENTRATION OF CREDIT RISK - PROPRIETARY FUNDS**

Accounts receivable and related user fees from utility customers were comprised largely of residents in the Town. Most customers have made deposits to partially secure their outstanding balance.

(Continued)

**NOTE 4 - ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS**

At June 30, 2018, accounts receivable for the Town’s funds consisted of the following:

General Fund:	
Franchise fees	\$ 19,355
Utility Fund:	
User fees, net	10,814
Franchise fees	<u>1,414</u>
Total Utility Fund, net	<u>12,228</u>
Total	<u>\$ 31,583</u>

Due from other governments at June 30, 2018 in the General Fund totaled \$66,085.

Due From Other Gov't:	
General Fund:	
Sales & Use Tax	\$ 48,649
FEMA Receivable	12,281
DOTD Grass Cutting	<u>5,155</u>
Total Due From Other Government - General Fund	66,085
Utility Fund:	
FEMA Receivable	<u>2,238</u>
Total Due from Other Government - Primary Government	<u>\$ 68,323</u>

Additionally, the Town has recorded an accounts receivable of \$100,000 in special assessments due from Renaissance Orange Grove, L.L.C. (see Note 10). This amount is considered likely uncollectable by the Town, therefore, a provision for doubtful account has also been recorded of \$100,000.

**NOTE 5 - RESTRICTED CASH**

Restricted cash at June 30, 2018 was as follows:

Recreation	\$ 201,584
Senior citizens	56,455
Public safety - police	18,207
Public safety - fire	70,858
Assurety bond	<u>9,500</u>
Total governmental activities	<u>\$ 356,604</u>

Business-type activities restricted cash of \$15,820 is related to customer deposits held on utility services provided.

**NOTE 6 - AD VALOREM TAXES**

The 1974 Louisiana Constitution (Article 7 Section 18) provided that land and improvements for residential purposes be assessed at 10% of fair market value; other property and electric cooperative properties, excluding land, are to be assessed at 15%; and public service properties, excluding land, are to be assessed at 25% of fair market value. Fair market value is determined by the elected assessor of the parish on all property subject to taxation except public service properties, which are valued by the Louisiana Tax Commission (LRS 47:1957). The correctness of assessments by the assessor is subject to review and certification by the Louisiana Tax Commission. The assessor is required to reappraise all property subject to taxation at intervals of not more than four years.

All property taxes are recorded in governmental funds, and as explained in Note 1, revenues in governmental funds are recognized in the accounting period in which they become available and measurable. Property taxes are considered measurable in the calendar year of the tax levy. Accordingly, the taxes assessed for the calendar year falling within the current fiscal year are recorded as revenue. Property taxes are collected by the tax collector during the fiscal year and are therefore available to liquidate liabilities of the current period.

Taxes are levied by the Town in September or October, and are billed to the taxpayers in November. Billed taxes become delinquent on December 31<sup>st</sup>. Revenues from ad valorem taxes are budgeted in the year assessed. Ad valorem taxes attach as an enforceable lien on property as of January 1<sup>st</sup> of each year.

For the year ended June 30, 2018, taxes of 6.21 mills were levied on property with assessed valuations totaling \$9,898,770 and were dedicated to general government. Total taxes levied and collected during 2018 were \$61,472 and \$60,080, respectively.

**NOTE 7 - CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2018, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 127,750	\$ -	\$ -	\$ 127,750
<b>Capital assets being depreciated:</b>				
Infrastructure	137,405	-	-	137,405
Buildings and improvements	888,190	-	-	888,190
Equipment and vehicles	372,843	22,012	-	394,855
Improvements other than buildings	31,082	-	-	31,082
Total capital assets being depreciated	1,429,520	22,012	-	1,451,532
Less accumulated depreciation for:				
Infrastructure	86,596	9,160	-	95,756
Buildings and improvements	211,777	18,995	-	230,772
Equipment and vehicles	116,194	56,890	-	173,084
Improvements other than buildings	4,921	3,108	-	8,029
Total accumulated depreciation	419,488	88,153	-	507,641
Total capital assets being depreciated, net	1,010,032	(66,141)	-	943,891
Governmental activities capital assets, net	\$ 1,137,782	\$ (66,141)	\$ -	\$ 1,071,641

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 20,242
Recreation	24,775
Highways and streets	43,136
Total depreciation expense - governmental activities	\$ 88,153

(Continued)

**NOTE 7 - CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 60,366	\$ -	\$ -	\$ 60,366
<b>Capital assets being depreciated:</b>				
Sewer treatment plants	1,080,626	-	-	1,080,626
Water system, tank, & pump	773,283	-	-	773,283
Equipment	46,976	-	-	46,976
Improvements	290,000	-	-	290,000
Total capital assets being depreciated	<u>2,190,885</u>	<u>-</u>	<u>-</u>	<u>2,190,885</u>
Less accumulated depreciation for:				
Sewer treatment plants	509,138	32,851	-	541,989
Water well, tank, & pump	392,767	28,595	-	421,362
Equipment	46,976	-	-	46,976
Improvements	78,944	19,333	-	98,277
Total accumulated depreciation	<u>1,027,825</u>	<u>80,779</u>	<u>-</u>	<u>1,108,604</u>
Total capital assets being depreciated, net	<u>1,163,060</u>	<u>(80,779)</u>	<u>-</u>	<u>1,082,281</u>
Business-type activities capital assets, net	<u>\$ 1,223,426</u>	<u>\$ (80,779)</u>	<u>\$ -</u>	<u>\$ 1,142,647</u>

**NOTE 8 - LONG-TERM DEBT**

**DEBT OUTSTANDING – GOVERNMENTAL ACTIVITIES**

The following is a summary of long-term debt transactions for the primary government for governmental activities for the year ended June 30, 2018:

	Outstanding July 1, 2017	Additions	Reductions	Outstanding June 30, 2018	Due Within One Year
Installment purchase agreement	\$ 143,745	\$ -	\$ 31,740	\$ 112,005	\$ 38,417
Net pension liability	12,957	-	1,273	11,684	-
	<u>\$ 156,702</u>	<u>\$ -</u>	<u>\$ 33,013</u>	<u>\$ 123,689</u>	<u>\$ 38,417</u>

(Continued)

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

**DEBT OUTSTANDING – GOVERNMENTAL ACTIVITIES (CONTINUED)**

Long-term debt obligations for the primary government for governmental activities at June 30, 2018, are comprised of the following individual issues:

***Installment Purchase Agreement***

\$177,587 of proceeds for the purchase of equipment, due in monthly installments of \$3,143 through June 2021, interest at 2.39%, secured by equipment.

\$ 112,005

***Net pension liability***

11,684

Total long-term debt – governmental activities

\$123,689

**Debt Service Requirements to Maturity**

The annual debt service requirements to amortize outstanding long-term debt of the primary governmental-type activities at June 30, 2018 are as follows:

Maturity	Installment Purchase Agreement	
	Principal	Interest
2019	\$ 38,417	\$ 2,443
2020	36,355	1,362
2021	37,233	484
Totals	\$ 112,005	\$ 4,289

**NOTE 9 - DEFINED BENEFIT PENSION PLAN**

The Town of Sorrento remits payments to Louisiana State Employees' Retirement System (LASERS). The system is a cost sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information relative to the plan is as follows:

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Description**

***Louisiana State Employees' Retirement System***

The Louisiana State Employees' Retirement System (LASERS) was established for the purpose of providing retirement allowances and other benefits as stated under the provisions of La. R.S. 11:401, as amended, for eligible state officers, employees and their beneficiaries. The projection of benefit payments in the calculation of the total pension liability includes all benefits to be provided to current active and inactive employees through the System in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date.

The Louisiana State Employees' Retirement System has issued a stand-alone audit report their financial statements for the year ended June 30, 2017. Access to the report can be found on LASERS website, [www.lasersonline.com](http://www.lasersonline.com), or the Louisiana Legislative Auditor's website, [www.la.gov](http://www.la.gov).

**Funding Policy**

Article X, Section 29(E)(2)(a) of the Louisiana Constitution of 1974 assigns the Legislature the authority to determine employee contributions. Employer contributions are actuarially determined using statutorily established methods on an annual basis and are constitutionally required to cover the employer's portion of the normal cost and provide for the amortization of the unfunded accrued liability. Employer contributions are adopted by the Legislature annually upon recommendation of the Public Retirement Systems' Actuarial Committee (PRSAC).

Employer contribution rate to the plan LASERS is established annually under La. R.S. 11:101-11:104 by the Public Retirement Systems' Actuarial Committee (PRSAC). The contribution rates in effect for the year ended June 30, 2017, for the Town and covered employees were as follows:

	Contribution Rates		
	Town	Employees	
<b>Louisiana State Employees' Retirement System</b>			
Judges hired before 1/1/2011	38.00%	10.00%	
Judges hired after 12/31/2010	36.70%	10.00%	
Plan	2018	2017	2016
Louisiana State Employees' Retirement System	\$ 1,169	\$ 1,020	\$ 1,132

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

The following schedule lists the Town's proportionate share of the Net Pension Liability for the pension plan based on the measurement dates. The Town uses this measurement to record its net pension liability and associated amounts as of June 30, 2018 in accordance with GASB Statement 68. The schedule also includes the proportionate share allocation rate used at the measurement date of the plan, along with the change compared prior year rates. The Town's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

	Net Pension Liability at June 30, 2018	Current Measurement Rate	Previous Measurement Rate	Increase (Decrease)
LASERS	\$ 11,684	0.00017%	0.00020%	-0.00003%

The Town recognized a pension benefit of \$93 for the year ended June 30, 2018.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (214)
Changes of assumptions	123	-
Net difference between projected and actual earnings on pension plan investments	380	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	-
Differences between allocated and actual contributions	-	(39)
Employer contributions subsequent to the measurement date	1,169	-
	<u>\$ 1,672</u>	<u>\$ (253)</u>

(Continued)

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The Town reported a total of \$1,169 as deferred outflow of resources related to pension contributions made subsequent to the measurement period based on the measurement data, which will be recognized as a reduction in net pension liability of the Town in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

Year	LASERS
2018	\$ (55)
2019	403
2020	179
2021	(277)
	\$ 250

**Actuarial Assumptions**

A summary of the actuarial methods and assumptions used in determining the total pension liability for the plan as of June 30, 2018:

	Measurement/ Valuation Date	Expected Remaining Service Lives	Investment Rate of Return
<b>LASERS</b>	June 30, 2017	3 years	7.70%; net of investment expense

***Mortality***

Non-disabled members - Mortality rates based on the RP-2000 Combined Healthy Mortality Table with mortality improvement projected to 2015.

Disabled members – Mortality rates based on the RP-2000 Disabled Retiree Mortality Table, with no projection for mortality improvement.

***Salary Increases***

Salary increases were projected based on a 2009-2013 experience study of the System's members. The salary increase range applicable to the Parish's employees has a lower range of 2.8% and upper range of 5.3%.

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

***Cost of Living Adjustments***

The present value of future retirement benefits is based on benefits currently being paid by the System and includes previously granted cost of living increases. The projected benefit payments do not include provisions for potential future increases not yet authorized by the Board of Trustees as they were deemed not to be substantively automatic.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.25% and an adjustment for the effect of rebalancing/diversification. The resulting expected long-term rate of return is 8.69% for 2017. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017 are summarized in the following table:

Expected Long Term Real Rates of Return	
Asset Class	2017
Cash	-0.24%
Domestic Equity	4.31%
International Equity	5.35%
Domestic Fixed Income	1.73%
International Fixed Income	2.49%
Alternative Investments	7.41%
Global Tactical Asset Allocation	2.84%
Inflation	3.25%
Expected Arithmetic Nominal Return	8.69%

***Termination, Disability, and Retirement***

Termination, disability, and retirement assumptions are projected based on a five-year (2009-2013) experience study of the systems members.

**NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Discount Rate**

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rates used for the plan is displayed in the Sensitivity of the Employer’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate table.

The following table presents the Town’s proportionate share of the Net Pension Liability (NPL) using the discount rate of the Retirement System as well as what the Town’s proportionate share of the NPL would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate used by the Retirement System:

	1.0% Decrease	Current Discount Rate	1.0% Increase
<b>LASERS</b>			
Discount Rates	6.70%	7.70%	8.70%
Shares of Net Pension Liability	\$ 14,669	\$ 11,684	\$ 9,147

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

**Intergovernmental Agreement**

The Town entered into an agreement with Orange Grove Community Development District (the District) whereas the District and its developer, Renaissance Orange Grove, L.L.C. (Renaissance), plan to construct a planned unit development (Orange Grove) within an annexed area of the Town. The Town and Renaissance have agreed that within 45 days of completed construction and approval of the final plat of the first filing of Orange Grove subdivision, the infrastructure assets of Orange Grove, which consist of a sewer system and related facilities, internal roadway system and storm water management system, shall be transferred by the District to the Town. Upon transfer of the systems, the Town shall assume full ownership and responsibility for operation and maintenance of the systems and will be responsible for the expansion, completion, operation and maintenance of the systems for all residents of Orange Grove who may reside in subsequent filing plats of Orange Grove. Also, the Town shall have exclusive rights to all fees and revenues generated from the sewer system within Orange Grove. The term of this agreement is for 60 years unless terminated by both the Town and the District.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Intergovernmental Agreement (Continued)**

As of June 30, 2018, the systems had not been transferred to the Town from the District.

Additionally, the District partially financed the construction of Orange Grove through the issuance of special assessment bonds. The Town has not incurred any debt, liabilities or other obligations as the bonds were issued by the District.

Finally, the Town entered into a cooperative endeavor agreement with Renaissance. This agreement provides that Renaissance shall pay the Town a sum of \$150,000 within two years of the annexation ordinance (Ordinance #09-04, adopted May 19, 2009) and approval of Orange Grove by the Town as specified lots are sold within Orange Grove. When received, these funds are restricted for fire and safety construction. As of June 30, 2018, the Town has received \$50,000 as part of this intergovernmental agreement; the remaining \$100,000 was the basis for a provision for uncollectible debt as disclosed in Note 4.

**Risk Management**

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the Town carries commercial insurance. There were no major changes in insurance coverage from the prior year and settlements have not exceeded coverage in the current year or in the past three years.

**Suits and Claim**

Various suits and claims arising in the ordinary course of operations are pending against the Town. The majority of cases are either covered by insurance or other defenses; however, the ultimate effect of such litigation cannot be ascertained at this time.

**NOTE 11 - DEFERRED COMPENSATION PLAN**

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Nationwide Retirement Solutions, Inc. (Nationwide). The Plan, available to all Town employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. In accordance with the amended provisions of the Internal Revenue Code, all amounts deferred under the Plan, including income attributable to those amounts, are solely the property and rights of the participants and their beneficiaries. As required, the Town established an agreement with a third party administrator who will hold the assets and income of the Plan. At June 30, 2018, there were no assets held by Nationwide on behalf of Town employees.

**NOTE 11 - DEFERRED COMPENSATION PLAN (CONTINUED)**

The Town has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Under this statement governments who have no responsibility for the plan and are not formally considered the Plan's trustee are not required to report the plan in its financial statements. Since the Town Plan is held in a custodial account with a third-party administrator, the assets and liabilities are not presented in the Town's financial statements.

**NOTE 12 - COMPENSATION OF GOVERNING BOARD**

During the year ended June 30, 2018, Council members received compensation, as follows:

<u>Name</u>	<u>Amount</u>
Randy Anny	\$ 3,600
Wanda LeBlanc Bourgeois	3,600
Pattie Melancon Poche'	3,600
Donald Schexnaydre	3,600
Randy Sutton	<u>3,600</u>
Total	<u>\$ 18,000</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF SORRENTO, LOUISIANA  
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes:				
Sales and use	\$ 622,250	\$ 636,000	\$ 659,939	\$ 23,939
Franchise	95,000	90,000	90,477	477
Ad valorem	62,000	60,000	60,080	80
Beer	2,500	3,000	1,968	(1,032)
Licenses and permits	94,700	95,050	122,292	27,242
Charges for services	15,800	22,300	30,258	7,958
Fines	750	300	952	652
Grants and contributions	38,000	18,000	15,817	(2,183)
Investment income	1,000	2,050	2,438	388
Miscellaneous	750	500	2,466	1,966
	<u>932,750</u>	<u>927,200</u>	<u>986,687</u>	<u>59,487</u>
<b>EXPENDITURES</b>				
Current function:				
General government	237,350	250,800	267,591	(16,791)
Public safety:				
Police	363,400	366,000	366,001	(1)
Fire	56,000	56,000	45,934	10,066
Highways and streets	219,200	279,400	240,253	39,147
Culture and recreation	42,500	59,000	58,077	923
Debt service	38,000	38,000	34,574	3,426
Capital outlay	6,000	15,650	22,012	(6,362)
	<u>962,450</u>	<u>1,064,850</u>	<u>1,034,442</u>	<u>30,408</u>
Excess (deficiency) of revenues over expenditures	(29,700)	(137,650)	(47,755)	89,895
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from Utility Fund	14,400	14,400	14,400	-
	<u>14,400</u>	<u>14,400</u>	<u>14,400</u>	<u>-</u>
Net change in fund balance	(15,300)	(123,250)	(33,355)	<u>\$ 89,895</u>
<b>FUND BALANCE</b>				
Beginning of year	<u>842,927</u>	<u>842,926</u>	<u>842,926</u>	
End of year	<u>\$ 827,627</u>	<u>\$ 719,676</u>	<u>\$ 809,571</u>	

The notes to the required supplementary information are an integral part of this schedule.

**TOWN OF SORRENTO, LOUISIANA**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF NET PENSION LIABILITY**

For the year ended June 30, 2018

**Louisiana State Employees' Retirement System (LASERS):**

<b>As of the fiscal year ended (2):</b>	<u><b>2018</b></u>		<u><b>2017</b></u>		<u><b>2016</b></u>
Employer's Proportion of the Net Pension Liability (Asset)	0.0002%		0.0002%		0.0002%
Employer's Proportionate Share of the Net Pension Liability (Asset)	11,684	\$	12,957	\$	10,746
Employer's Covered-Employee Payroll	2,927		2,927		2,927
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	399.18%		442.67%		367.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.50%		57.70%		62.70%

<b>As of the fiscal year ended (2):</b>			<u><b>2015</b></u>
Employer's Proportion of the Net Pension Liability (Asset)			0.0002%
Employer's Proportionate Share of the Net Pension Liability (Asset)		\$	10,192
Employer's Covered-Employee Payroll			2,927
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll			348.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability			65.00%

(1) Schedule is intended to show information for 10 years. Additional years will be displayed as available.

(2) The amounts presented have a measurement date of LASERS's prior June 30th fiscal year end.

**TOWN OF SORRENTO, LOUISIANA**  
**SCHEDULE OF PENSION CONTRIBUTIONS**

**LAST TEN FISCAL YEARS (1)**

For the year ended June 30, 2018

**Louisiana State Employees' Retirement System (LASERS):**

<b>As of the fiscal year ended</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Excess (Deficiency)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Contributions as a % of Covered Employee Payroll</b>
6/30/2018	\$ 1,215	\$ 1,169	\$ (46)	2,927	39.94%
6/30/2017	1,215	1,020	(195)	2,927	34.85%
6/30/2016	1,215	1,132	(83)	2,927	38.67%
6/30/2015	1,215	1,189	(26)	2,927	40.62%

*(1) Schedule is intended to show information for 10 years. Additional years will be displayed as available.*

The notes to the required supplementary information are an integral part of this schedule.

## TOWN OF SORRENTO, LOUISIANA

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2018

#### **NOTE 1 - BUDGETS**

##### **Budget Policy and Budgetary Accounting**

A proposed budget is prepared and submitted by the Mayor to the Town Council prior to the beginning of each fiscal year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

The annual operating budget, prepared on the modified-accrual basis, covers the General Fund. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Town Council and are included in the financial statements.

In connection with budget preparation, a portion of the unreserved fund balance of an individual fund may be designated for expenditures of the subsequent year. Such designation represents the extent to which the fund balance is used to balance the subsequent year's operating budget of that fund, as reflected in the legally adopted budget.

##### **Basis of Accounting**

All of the Town's funds budgets are prepared on the modified-accrual basis of accounting, which is described in Note 1 to the Town's financial statements for the year ended June 30, 2018. The Town's basis of budgetary accounting follows generally accepted accounting principles.

#### **NOTE 2 - DEFINED BENEFIT PENSION PLAN**

##### **Changes of Benefit Terms**

There were no changes of benefit terms for the year ended June 30, 2018.

##### **Changes of Assumptions**

For the year ended June 30, 2018, the investment rate of return and the inflation rate used in determining total pension liability decreased 0.25%. Salary increase percentages applicable to the Town decreased 0.20%.

**TOWN OF SORRENTO, LOUISIANA**  
**SCHEDULE OF COMPENSATION, BENEFITS AND**  
**OTHER PAYMENTS TO AGENCY HEAD**

For the year ended June 30, 2018

**Agency Head: Michael Lambert, Mayor**

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 12,000
Mileage reimbursements	<u>314</u>
	<u>\$ 12,314</u>

**INDEPENDENT AUDITORS' REPORTS  
REQUIRED BY *GOVERNMENTAL AUDITING STANDARDS***



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the Town Council  
Sorrento, Louisiana

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Sorrento, Louisiana, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Sorrento, Louisiana's basic financial statements and have issued our report thereon dated November 2, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Sorrento, Louisiana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Sorrento, Louisiana's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Sorrento, Louisiana's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gonzales, Louisiana  
November 2, 2018

**TOWN OF SORRENTO, LOUISIANA**

**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2018**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Town of Sorrento were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Town of Sorrento which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None noted

**C. FINDINGS – COMPLIANCE**

None noted

**TOWN OF SORRENTO, LOUISIANA**  
**SUMMARY OF PRIOR YEAR FINDINGS**  
**YEAR ENDED JUNE 30, 2018**

**A. FINDINGS – FINANCIAL STATEMENTS**

None noted

**B. FINDINGS – COMPLIANCE**

**2017-001 Louisiana Budget Law**

*Condition:* The Town's General Fund had an unfavorable variance of 5.05% of total actual expenditures to total budgeted expenditures.

*Current status:* No similar finding reported in current year.



**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To the Honorable Mayor Michael Lambert, Town Council, and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by the Town of Sorrento (the Town) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2017 through June 30, 2018. The Town's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

***Written Policies and Procedures***

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1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

- a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

*Written policies and procedures were obtained and address the functions noted above.*

- b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

*Written policies and procedures were obtained and address the functions noted above except the policy did not include procedures of how vendors are added to the vendor list.*

*Management's response: Management will review the Town's policies and procedures in place and consider amending the Town's policies to include how vendors are added to the vendor list and procedures for periodically reviewing changes to vendor files.*

- c) ***Disbursements***, including processing, reviewing, and approving.

*Written policies and procedures were obtained and address the functions noted above.*

- d) **Receipts/Collections** including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

*Written policies and procedures were obtained and address the functions noted above with the exception of management's actions to determine the completeness of all collections for each type of revenue.*

*Management's response: Management will review the Town's policies and procedures in place and consider amending the Town's policies to include management's actions to determine the completeness of all collections for each type of revenue.*

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

*The Town does not have a separate policy on payroll addressing the above items.*

*Management's response: The Town will adopt a written policy addressing the items related to payroll/personnel.*

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

*The Town does not have a contracting policy to address the above items.*

*Management's response: The Town will adopt a written policy addressing the items related to contracts.*

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

*The Town does not have a credit card policy.*

*Management's Response: The Town will adopt a written policy addressing the items related to credit cards.*

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

*Written policies and procedures were obtained and address the functions noted above.*

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

*The Town does not have an ethics policy.*

*Management's Response: The Town follows the State's policy. Management will consider amending the Town's policies to note adherence to the Louisiana Code of Governmental Ethics as well as procedures to ensure and monitor that employees/elected officials annually attest through signature verification that they have read the entity's ethics policy.*

- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

*The Town does not have a debt policy.*

*Management's response: We have two equipment purchase loans; however, will consider adopting a policy.*

**Board (or Finance Committee, if applicable)**

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- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

*Obtained and reviewed minutes of the managing board for the fiscal period noting that the board met monthly. However, there was one meeting without a quorum.*

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds.

*The minutes did not include a reference to monthly budget-to-actual comparisons for the general fund or the proprietary fund for the months of July through December 2017.*

*Managements Response: Monthly budget to actual comparisons are provided to the board each month. The Town began referencing the council's review starting in January 2018.*

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

*The Town's general fund reported a positive unrestricted fund balance at the end of the prior fiscal year.*

### ***Bank Reconciliations***

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3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

*Obtained listing of client bank accounts from management and management's representation that listing is complete.*

- a) Bank reconciliations include evidence that they were prepared within two months of the related statement closing date.

*Obtained bank statements and reconciliations for the month selected in the fiscal period noting that reconciliations have been prepared for each account selected within two months of the statement closing date.*

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

*No exceptions noted.*

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

*No exceptions noted.*

### ***Collections***

---

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/check/money order (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

*Obtained listing of deposit sites and management's representation that listing is complete.*

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

*Obtained listing of collection locations and management's representation that listing is complete.*

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

*Collections are performed by the Town's two employees who share the same drawer.*

*Management's response: Efforts will be made to segregate duties in the collection process to the extent possible with the limited number of employees involved.*

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

*The Town's two employees responsible for collecting cash are also responsible for preparing/making the deposit slips.*

*Management's response: The Town is aware of the overlapping duties. The Town has hired an outside CPA firm to assist the Town in various accounting functions on a monthly basis. Notable monthly services provided by the CPA include, but are not limited to, review of bank reconciliations, reconciling general ledger accounts and prepares financial statements and budget to actual comparisons that are provided to the council at monthly meetings. Management feels that this is the most cost-efficient oversight for the Town with the limited number of resources available.*

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

*The Town clerk can collect cash and post collection entries to the general ledger.*

*Management's response: The Town is aware of the overlapping duties. The Town has hired an outside CPA firm to assist the Town in various accounting functions on a monthly basis. Notable monthly services provided by the CPA include, but are not limited to, review of bank reconciliations, reconciling general ledger accounts and prepares financial statements and budget to actual comparisons that are provided to the council at monthly meetings. Management feels that this is the most cost-efficient oversight for the Town with the limited number of resources available.*

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

*The Town clerk can collect cash and reconciles collections to the general ledger.*

*Management's response: The Town is aware of the overlapping duties. The Town has hired an outside CPA firm to assist the Town in various accounting functions on a monthly basis. Notable monthly services provided by the CPA include, but are not limited to, review of bank reconciliations, reconciling general ledger accounts and prepares financial statements and budget to actual comparisons that are provided to the council at monthly meetings. Management feels that this is the most cost-efficient oversight for the Town with the limited number of resources available.*

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

*Employees who have access to cash are covered by a insurance policy for theft.*

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

*The Town only uses sequentially pre-numbered receipts for planning and zoning collections.*

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

*No exceptions noted.*

- c) Trace the deposit slip total to the actual deposit per the bank statement.

*No exceptions noted.*

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

*One of the eight deposits selected was made within one business day of collection. Seven of the eight deposits selected were not deposited within one day of collection and/or receipt documentation was not provided to determine the date of receipt.*

*Management's Response: It is the practice of the Town to make deposits on Tuesdays and Thursdays as there are no financial institutions in municipal limits and the nearest bank branch is over five miles away. Considering the required travel, Town management does not believe it is practical to make daily deposit when collections do not exceed \$500. On days in which deposits are not made, the Town safeguards the funds overnight. The Town feels that making two deposits per week is reasonable and suitable for the resources available.*

- e) Trace the actual deposit per the bank statement to the general ledger.

*No exception noted.*

***Non-Payroll Disbursements (excluding card purchase/payments, travel reimbursements, and petty cash purchases)***

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8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

*Obtained listing of disbursements and management's representation that listing is complete.*

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

*No exceptions noted.*

- b) At least two employees are involved in processing and approving payments to vendors.

*No exceptions noted.*

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

*The employee responsible for processing payments is not prohibited from adding vendors to the entity's purchasing/disbursement system and there is no evidence that another employee is responsible for periodically reviewing changes to vendor files.*

*Management's response: The Town is aware of the overlapping duties. The Mayor has overall responsibility for reviewing transactions prior to signing checks for purchases/disbursements in efforts to mitigate risk associated with the limited number of employees involved with these transactions. Also, the council receives a list of vendor disbursements at each council meeting for review. Management will consider amending the Town's policies to include how vendors are added to the vendor list and procedures for periodically reviewing changes to vendor files.*

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

*The employee responsible for processing payments receives checks from individual responsible for signing the check and mails checks.*

*Management's response: The Town is aware of the overlapping duties. Management will review processes in place and consider how to adequately segregate responsibilities for employees that mail the payments with the resources available.*

10. Using each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

a) Observe that the disbursement matched the related original invoice/billing statement.

*No exception noted.*

b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

*No exception noted.*

#### ***Credit Cards/Debit Cards/Fuel Cards/P-Cards***

---

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

*Obtained listing of credit cards/debit cards/fuel cards and management's representation that listing is complete.*

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

a) Report Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

*For the month selected, supporting documentation was reviewed and approved, in writing by someone other than the authorized card holder.*

b) Observe that finance charges and late fees were not assessed on the selected statements.

*No finance charges and/or late fees were assessed on the statement selected.*

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

*No exceptions noted.*

#### ***Travel and Travel-Related Expense Reimbursements***

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14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

*Obtained listing of all travel and related expense reimbursements, by person, and management's representation that listing is complete.*

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)).

*Not applicable.*

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

*No exceptions noted.*

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

*Four of the five reimbursements selected did not include the documentation of the business/public purpose.*

*Management's response: Management noted that the mayor is responsible for reviewing and approving reimbursement request. The Mayor is aware of the nature of the employee's travel and business purpose prior to authorizing the check for payment. However, management will discuss the importance of adequately documenting all applicable information on reimbursement request including the business/public purpose to all employees to ensure travel and travel-related expense reimbursements are properly documented.*

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

*Reimbursements for four of five employees selected were supported by documentation of review and approval in writing by someone other than the traveler without exception. One of five employee's expense reimbursements selected did not provide evidence that the reimbursement was reviewed or approved in writing by someone other than the traveler.*

*Management's response: Management feels that this was an isolated event. There were other employees that attended the same conference to which reimbursement request was properly reviewed and approved. Management believes procedures in place over expense reimbursements are adequate for the Town and management will continue to monitor the reimbursement process to ensure policies are adhered to.*

### **Contracts**

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15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

*Based on the terms of the Agreed Upon Procedures, we are allowed to rotate procedures in this category since there were no exceptions in Year 1. Management agrees procedures do not need to be performed in this category.*

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

*Based on the terms of the Agreed Upon Procedures, we are allowed to rotate procedures in this category since there were no exceptions in Year 1. Management agrees procedures do not need to be performed in this category.*

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

*Based on the terms of the Agreed Upon Procedures, we are allowed to rotate procedures in this category since there were no exceptions in Year 1. Management agrees procedures do not need to be performed in this category.*

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

*Based on the terms of the Agreed Upon Procedures, we are allowed to rotate procedures in this category since there were no exceptions in Year 1. Management agrees procedures do not need to be performed in this category.*

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

*Based on the terms of the Agreed Upon Procedures, we are allowed to rotate procedures in this category since there were no exceptions in Year 1. Management agrees procedures do not need to be performed in this category.*

### ***Payroll and Personnel***

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16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

*Obtained listing of all employees/elected officials employed during the fiscal period and management's representation that listing is complete.*

*The personnel files for the five employees/elected officials selected did not include documentation of authorized salaries/pay rates.*

*Management's response: Management will review the Town's personnel policy and consider implementing procedures to document and maintain approved salaries/pay rates in personnel files.*

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

*No exceptions noted.*

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

*Three of the five employees/officials selected are required to document daily attendance and leave. For the pay period selected, the attendance and leave records were not approved by a supervisor.*

*Management's response: Management will review the Town's personnel policy and, where applicable, consider implementing procedures to approve attendance and leave records of employees/officials.*

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

*No exceptions noted.*

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

*Obtained management's representation that no termination payments were made during the fiscal period.*

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

*Obtained management's representation that no termination payments were made during the fiscal period.*

### ***Ethics***

---

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:
  - a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

*No exceptions noted.*

- b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

*The Town's employees/officials did not annually attest through signature verification that they have read the entity's ethics policy.*

*Management's Response: Management will consider amending the Town's policies to note adherence to the Louisiana Code of Governmental Ethics as well as procedures to ensure and monitor that employees/elected officials annually attest through signature verification that they have read the entity's ethics policy*

### ***Debt Service (excluding nonprofits)***

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21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

*Management represented that no bonds/notes were issued during the fiscal period that require State Bond Commission approval.*

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

*Obtained listing of bonds/notes outstanding and management's representation that listing was complete. There are no debt covenants.*

***Other***

---

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

*Management asserted that the entity did not have any misappropriations of public funds or assets.*

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

*Required notice was posted on the Town's premises and website.*

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*Diaz, Dupuy & Ruiz*

Gonzales, Louisiana  
November 2, 2018