

Sorrento[®]

LOUISIANA

FINANCIAL STATEMENTS

June 30, 2017

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, 2017, 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, 2017, 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 December 28, 2017 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.

Diery, Dupuy & Ruiz

December 28, 2017
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, 2017. 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 2017, the Town of Sorrento experienced an decrease in governmental net position of \$49,000 as governmental expenses exceed governmental revenues. Business-type activities of the Town experienced an operating deficit of \$74,000 due to depreciation expense recognized on capital assets of \$81,000 and operating expenses increasing by \$23,000. Operating revenues increased \$4,000 from prior year.

The major financial highlights for 2017 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 \$3.1 million (net position). Of this amount, approximately \$486,000 (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 \$49,000, whereas business-type total net position decreased by approximately \$74,000 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 \$842,000, an decrease of approximately \$22,000 in comparison to the prior year due to Grants and proceeds from sale of capital assets of \$196,000 and \$20,000, respectively along with legal expenses of \$57,000. Approximately 45% 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, 2017, 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, 2017, the Town's net position was approximately \$3.1 million, of which approximately \$486,000 was unrestricted. Restricted net position of \$376,000 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, 2017 and 2016						
(in thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 983	\$ 949	\$ 57	\$ 46	\$ 1,040	\$ 995
Capital assets	1,138	1,198	1,224	1,304	2,362	2,502
Deferred outflows	3	1	-	-	3	1
Total assets and deferred outflows	<u>2,124</u>	<u>2,148</u>	<u>1,281</u>	<u>1,350</u>	<u>3,405</u>	<u>3,498</u>
Current and other liabilities	140	84	28	23	168	107
Long-term liabilities	157	188	-	-	157	188
Deferred inflows	-	-	-	-	-	-
Total liabilities and deferred inflows	<u>297</u>	<u>272</u>	<u>28</u>	<u>23</u>	<u>325</u>	<u>295</u>
Net position:						
Net investment in capital assets	994	1,021	1,224	1,304	2,218	2,325
Restricted	376	307	-	-	376	307
Unrestricted	457	548	29	23	486	571
Total 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>

(Continued)

Net position of the Town's governmental activities decreased by approximately \$49,000 during 2017. 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 \$457,000 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 \$74,000 during 2017 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, 2017 and 2016
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 131	\$ 97	\$ 183	\$ 179	\$ 314	\$ 276
Operating grants and contributions	126	14	19	-	145	14
Capital grants and contributions	25	782	-	-	25	782
General revenues:						
Ad valorem taxes	62	67	-	-	62	67
Sales taxes	647	616	-	-	647	616
Franchise taxes	97	96	-	-	97	96
Other and transfers	25	141	(6)	-	19	141
Total revenues	1,113	1,813	196	179	1,309	1,992
Functions/Program expenses:						
General government	248	226	-	-	248	226
Public safety	416	412	-	-	416	412
Highway and streets	423	357	-	-	423	357
Culture and recreation	75	65	-	-	75	65
Utility operations	-	-	270	247	270	247
Total expenses	1,162	1,060	270	247	1,432	1,307
Change in net position	(49)	753	(74)	(68)	(123)	685
Beginning net position	1,876	1,123	1,327	1,395	3,203	2,518
Ending net position	\$ 1,827	\$ 1,876	\$ 1,253	\$ 1,327	\$ 3,080	\$ 3,203

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	
	2017	2016
Revenues	\$ 1,143	\$ 904
Expenditures	<u>1,195</u>	<u>1,090</u>
Excess (deficiency) of revenues over expenditures	(52)	(186)
Other financing sources	<u>31</u>	<u>316</u>
Net change in fund balance	(21)	130
Beginning fund balance	<u>864</u>	<u>734</u>
Ending fund balance	<u>\$ 843</u>	<u>\$ 864</u>

The Town's General Fund experienced a decrease in fund balance of approximately \$35,000 during 2017, which is primarily related to engineering and maintenance related to flood recovery efforts of \$88,000 and \$50,000, respectively. At year end, fund balance was approximately \$843,000, of which approximately \$524,000 was unassigned and available for utilization at the Town's discretion. Of the remaining balance, approximately \$375,000 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)			
	2017		2016	
Taxes	\$ 810	71%	\$ 781	84%
Licenses and permits	110	10%	81	12%
Intergovernmental	196	17%	24	3%
Other revenues	27	2%	18	1%
Total	<u>\$ 1,143</u>	<u>100%</u>	<u>\$ 904</u>	<u>100%</u>

Revenues of the primary government for governmental fund types for 2017 were approximately \$1,143,000 compared to approximately \$904,000 for the previous year. The Town's total revenue increased by \$239,000 due to an increase in licenses and permit fees collected in 2017, and grants totaling \$196,000. As noted above, the Town's activities are largely supported by tax revenues, which represent 71% of total governmental resources.

<u>Function</u>	(In thousands)			
	2017		2016	
General government	\$ 227	19%	\$ 208	19%
Public safety	468	39%	413	38%
Highways and streets	378	32%	166	15%
Culture and recreation	51	4%	49	4%
Debt service	38	3%	-	0%
Capital outlay	33	3%	254	24%
Total	<u>\$ 1,195</u>	<u>100%</u>	<u>\$ 1,090</u>	<u>100%</u>

Expenditures of the primary government increased in 2017 by \$105,000 or 9%. The change is related to increased Highway and Street expenditures of \$212,000 and an increase in Debt Service expenditures of \$38,000 and decrease in capital outlay of \$221,000.

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 2017 were as follows:

- An decrease in licenses and permits of \$22,000,
- An increase in intergovernmental grants revenue of \$128,000,
- A increase in general government expenditures of \$19,000,
- An increase in highways and street expenditures of \$198,000, related to drainage projects, and
- An increase in capital outlay expenditures of \$9,000.

Overall, the increases to appropriations (expenditures) were \$236,000 that resulted in the final budget appropriation of approximately \$1,137,750.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the Town had approximately \$2.4 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 \$141,000, or 6%, from last year.

	(in thousands)					
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 128	\$ 128	\$ 60	\$ 60	\$ 188	\$ 188
Construction in progress	-	-	-	-	-	-
Infrastructure	51	60	-	-	51	60
Buildings and improvements	676	695	211	-	887	695
Improvements other than buildings	26	48	-	-	26	48
Equipment and vehicles	257	267	-	-	257	267
Sewer system	-	-	571	835	571	835
Water distribution system	-	-	381	409	381	409
Total assets, net of depreciation	<u>\$ 1,138</u>	<u>\$ 1,198</u>	<u>\$ 1,223</u>	<u>\$ 1,304</u>	<u>\$ 2,361</u>	<u>\$ 2,502</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 2017, the Town had \$157,000 in debt outstanding compared to 188,000 at the end of 2016, a decrease of \$31,000, as shown below:

	<u>Outstanding July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2017</u>	<u>Due Within One Year</u>
Installment purchase agreement	\$ 177,587	\$ -	\$ 33,842	\$ 143,745	\$ 34,660
Net pension liability	10,746	3,343	1,132	12,957	-
	<u>\$ 188,333</u>	<u>\$ 3,343</u>	<u>\$ 34,974</u>	<u>\$ 156,702</u>	<u>\$ 34,660</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2018 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 56% of budgeted revenue. The Town budgeted a decrease in overall revenue of approximately \$210,000 for 2018 compared to actual 2017 results, since the Town is not receiving federal disaster grants in 2018. Additionally, the Town is projecting a decrease in expenditures of \$174,000. If these estimates are realized during 2018, fund balance for the Town's General Fund will decrease by approximately \$15,000 as compared to an increase of approximately \$37,000 increase during 2017.

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, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 385,122	\$ 94,160	\$ 479,282
Accounts receivable, net	22,560	12,774	35,334
Internal balances	83,500	(83,500)	-
Due from other governments	116,843	19,105	135,948
Restricted cash	375,669	14,751	390,420
Capital assets:			
Non-depreciable	127,750	60,366	188,116
Depreciable, net	1,010,032	1,163,060	2,173,092
Total assets	2,121,476	1,280,716	3,402,192
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension liability	2,719	-	2,719
Total assets and deferred outflows of resources	\$ 2,124,195	\$ 1,280,716	\$ 3,404,911
LIABILITIES			
Accounts payable and accrued liabilities	\$ 114,605	\$ 13,165	\$ 127,770
Payable from restricted assets	26,163	14,751	40,914
Long-term liabilities:			
Due within one year	34,660	-	34,660
Due in more than one year	109,085	-	109,085
Net pension liability	12,957	-	12,957
Total liabilities	297,470	27,916	325,386
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension liability	120	-	120
Total liabilities and deferred inflows of resources	297,590	27,916	325,506
NET POSITION			
Net investment in capital assets	994,037	1,223,426	2,217,463
Restricted for:			
Recreational services	207,938	-	207,938
Public safety	105,228	-	105,228
Senior citizen assistance	53,002	-	53,002
Other purposes	9,500	-	9,500
Unrestricted	456,900	29,374	486,274
Total net position	1,826,605	1,252,800	3,079,405
Total liabilities, deferred inflows of resources and net position	\$ 2,124,195	\$ 1,280,716	\$ 3,404,911

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, 2017

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 248,538	\$ 130,762	\$ 125,687	\$ 20,000	\$ 27,911	\$ -	\$ 27,911
Public safety:							
Police	372,741	-	-	-	(372,741)	-	(372,741)
Fire	42,522	-	-	-	(42,522)	-	(42,522)
Highway and streets	423,041	-	-	-	(423,041)	-	(423,041)
Culture and recreation	75,351	-	-	5,000	(70,351)	-	(70,351)
Total governmental activities	1,162,193	130,762	125,687	25,000	(880,744)	-	(880,744)
Business-type activities:							
Utility operations	270,465	183,187	19,155	-	-	(68,123)	(68,123)
Total primary government	\$ 1,432,658	\$ 313,949	\$ 144,842	\$ 25,000	(880,744)	(68,123)	(948,867)
General revenues:							
Taxes:							
Sales					646,969	-	646,969
Franchise					96,634	-	96,634
Property					62,502	-	62,502
Other					4,160	-	4,160
Grants and contributions not restricted to specific programs					1,851	-	1,851
Gain on sale of capital assets					7,383	-	7,383
Gain on sale of right-of-way					5,000	-	5,000
Investment earnings					1,274	75	1,349
Transfers					6,000	(6,000)	-
Total general revenues					831,773	(5,925)	825,848
Change in net position					(48,971)	(74,048)	(123,019)
Net position - beginning of year					1,875,576	1,326,848	3,202,424
Net position - end of year					\$ 1,826,605	\$ 1,252,800	\$ 3,079,405

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

TOWN OF SORRENTO, LOUISIANA

**BALANCE SHEET
GOVERNMENTAL FUND**

June 30, 2017

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 385,122
Accounts receivable, net	22,560
Due from Utility Fund	83,500
Due from other governmental units	116,843
Restricted cash	<u>375,669</u>
Total current assets	<u>983,694</u>
 Total assets	 <u><u>\$ 983,694</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 114,605
Payable from restricted assets	<u>26,163</u>
Total liabilities	<u>140,768</u>
FUND BALANCE	
Restricted for:	
Recreational services	207,938
Public safety	105,228
Senior citizen assistance	53,002
Other purposes	9,500
Unassigned	<u>467,258</u>
Total fund balance	<u>842,926</u>
 Total liabilities and fund balance	 <u><u>\$ 983,694</u></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, 2017

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

Total fund balances - governmental funds (Exhibit A-2)		\$	842,926
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.			1,137,782
Long-term liabilities (e.g. bonds, leases), that are not due and payable in the current period and, therefore, are not reported in the governmental funds:			
Installment purchase agreement	(143,745)		(143,745)
Pension related obligations are not due and payable with current resources and, therefore, are not reported in governmental funds.			
Net pension liability		\$	(12,957)
Deferred outflows related to pension liability			2,719
Deferred inflows related to pension liability	(120)		(10,358)
Net position of governmental activities (Exhibit A)			\$ 1,826,605

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the year ended June 30, 2017

	General Fund
REVENUES	
Taxes:	
Sales and use	\$ 646,969
Franchise	96,634
Ad valorem	62,502
Other	4,160
Licenses and permits	109,515
Charges for services	21,247
Grants and contributions	195,687
Investment income	1,274
Miscellaneous	4,808
Total revenues	1,142,796
EXPENDITURES	
Current function:	
General government	226,798
Public safety:	
Police	425,698
Fire	42,522
Highways and streets	378,298
Culture and recreation	51,546
Debt service	37,717
Capital outlay	32,630
Total expenditures	1,195,209
Deficiency of revenues over expenditures	(52,413)
OTHER FINANCING SOURCES	
Transfers in	6,000
Proceeds from sale of right-of-way	5,000
Proceeds from sale of capital assets	19,843
Total other financing sources	30,843
Net change in fund balance	(21,570)
FUND BALANCE	
Beginning of year	864,496
End of year	\$ 842,926

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, 2016

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)		\$ (21,570)
<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 capital outlay exceeded depreciation.</p>		
Capital outlay	32,630	
Depreciation expense	(85,726)	(53,096)
<p>The net effect of various miscellaneous transactions involving capital assets, such as sales, trade-ins, and donations, is to decrease net position.</p>		
Gain on sales and disposals of capital assets		(12,460)
Capital grant contributions for capital assets placed into service		5,000
Debt service		33,842
<p>Changes in net pension obligations are reported only in the Statement of Activities.</p>		
		(687)
Change in net position of governmental activities (Exhibit A-1)		\$ (48,971)

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

STATEMENT OF NET POSITION

June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$	94,160
Accounts receivable, net		12,774
Restricted cash - utility deposits		14,751
Due from other governments		19,105
		140,790
Total current assets		140,790

NONCURRENT ASSETS

Capital assets:

Non-depreciable		60,366
Depreciable, net		1,163,060
		1,223,426
Total noncurrent assets		1,223,426
Total assets	\$	1,364,216

LIABILITIES

Current liabilities:

Accounts payable	\$	13,165
Due to General Fund		83,500
Payable from restricted assets		14,751
		111,416
Total current liabilities		111,416

NET POSITION

Net investment in capital assets		1,223,426
Unrestricted		29,374
		1,252,800
Total net position		1,252,800
Total liabilities and net position	\$	1,364,216

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

**TOWN OF SORRENTO, LOUISIANA
 PROPRIETARY FUND - UTILITY FUND
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION**

For the year ended June 30, 2017

OPERATING REVENUES

Charges for services:

Garbage	\$	119,996
Sewer		57,676
Water franchise fees		<u>5,515</u>

Total operating revenues		<u>183,187</u>
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OPERATING EXPENSES

Garbage		103,429
Sewer		86,258
Depreciation		<u>80,779</u>

Total operating expenses		<u>270,465</u>
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Operating loss		(87,278)
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NONOPERATING REVENUES

Intergovernmental grant		19,155
Interest income		<u>75</u>

Total nonoperating revenues		<u>19,230</u>
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Loss before transfers		(68,048)
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Transfers out		<u>(6,000)</u>
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Change in net position		(74,048)
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NET POSITION

Beginning of year		<u>1,326,848</u>
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End of year	\$	<u><u>1,252,800</u></u>
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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, 2016

	Business-type Activities - Enterprise Fund
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 182,768
Payments to suppliers	<u>(181,049)</u>
Net cash provided by operating activities	<u>1,719</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from other governments	50
Transfers to other funds	<u>(6,000)</u>
Net cash used by noncapital and related financing activities	<u>(5,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>75</u>
Net decrease in cash	(4,156)
CASH	
Beginning of period	<u>113,067</u>
End of period	<u>\$ 108,911</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (87,278)
Adjustments for non-cash items:	
Depreciation	80,779
Change in operating assets and liabilities:	
Accounts receivable and other assets	(2,930)
Due to/from other funds	6,000
Accounts payable and accrued liabilities	2,637
Deposits	<u>2,511</u>
Net cash provided by operating activities	<u>\$ 1,719</u>
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION:	
Cash	\$ 94,160
Restricted cash	<u>14,751</u>
Total cash on statement of cash flows	<u>108,911</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 2017.

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 operating cash account.

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 LAMP to invest idle funds.

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.

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 \$103,300 was recorded at June 30, 2017.

(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 \$83,500 at June 30, 2017.

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	20 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 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 Town has one item that qualifies for this category. The item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental funds report unavailable revenues from charges for services.

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. This included the Budget Reserve Account.
- 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. No interfund transfers have been made by the Town in 2017.

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 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 the date of the independent auditors' report, which was 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, 2017, the Town's deposits were not exposed to any custodial risk. As of June 30, 2017 the Town had a balance of \$169,219 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, 2017, accounts receivable for the Town's funds consisted of the following:

General Fund:	
Franchise fees	\$ 21,993
Other	<u>567</u>
Total General Fund, net	<u>22,560</u>
Utility Fund:	
User fees, net	11,579
Franchise fees	<u>1,195</u>
Total Utility Fund, net	<u>12,774</u>
Total	<u>\$ 35,334</u>

Due from other governments at June 30, 2017 in the General Fund totaled \$120,847.

Due From Other Gov't:

General Fund:

Sales & Use Tax	\$ 64,482
FEMA Receiveable	46,308
DOTD Grass Cutting	5,167
Beer Tax	<u>886</u>

Total Due From Other Government - General Fund 116,843

Utility Fund:

FEMA Receiveable	<u>19,105</u>
------------------	---------------

Total Due from Other Government - Primary Governemnt \$ 135,948

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, 2017 was as follows:

Recreation	\$ 207,938
Senior citizens	53,002
Public safety - police	38,500
Public safety - fire	66,729
Assurety bond	<u>9,500</u>
Total governmental activities	<u>\$ 375,669</u>

Business-type activities restricted cash of \$14,751 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 31st. Revenues from ad valorem taxes are budgeted in the year assessed. Ad valorem taxes attach as an enforceable lien on property as of January 1st of each year.

For the year ended June 30, 2017, taxes of 6.11 mills were levied on property with assessed valuations totaling \$9,653,790 and were dedicated to general government. Total taxes levied and collected during 2017 were \$58,986 and \$62,502, respectively, which includes amounts due from prior assessments.

NOTE 7 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 127,750	\$ -	\$ -	\$ 127,750
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>127,750</u>	<u>-</u>	<u>-</u>	<u>127,750</u>
Capital assets being depreciated:				
Infrastructure	137,405	-	-	137,405
Buildings and improvements	888,190	-	-	888,190
Equipment and vehicles	359,301	37,630	(24,089)	372,842
Improvements other than buildings	31,082	-	-	31,082
Total capital assets being depreciated	<u>1,415,978</u>	<u>37,630</u>	<u>(24,089)</u>	<u>1,429,519</u>
Less accumulated depreciation for:				
Infrastructure	77,436	9,160	-	86,596
Buildings and improvements	192,782	18,995	-	211,777
Equipment and vehicles	73,360	54,463	(11,629)	116,194
Improvements other than buildings	1,813	3,108	-	4,921
Total accumulated depreciation	<u>345,391</u>	<u>85,726</u>	<u>(11,629)</u>	<u>419,488</u>
Total capital assets being depreciated, net	<u>1,070,587</u>	<u>(48,096)</u>	<u>(12,460)</u>	<u>1,010,031</u>
Governmental activities capital assets, net	<u>\$ 1,198,337</u>	<u>\$ (48,096)</u>	<u>\$ (12,460)</u>	<u>\$ 1,137,781</u>

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

Governmental activities:	
General government	\$ 21,053
Recreation	23,805
Highways and streets	<u>40,868</u>
Total depreciation expense - governmental activities	<u>\$ 85,726</u>

(Continued)

NOTE 7 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 60,366	\$ -	\$ -	\$ 60,366
Capital assets being depreciated:				
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	476,287	32,851	-	509,138
Water well, tank, & pump	364,172	28,595	-	392,767
Equipment	46,976	-	-	46,976
Improvements	59,611	19,333	-	78,944
Total accumulated depreciation	<u>947,046</u>	<u>80,779</u>	<u>-</u>	<u>1,027,825</u>
Total capital assets being depreciated, net	<u>1,243,839</u>	<u>(80,779)</u>	<u>-</u>	<u>1,163,060</u>
Business-type activities capital assets, net	<u>\$ 1,304,205</u>	<u>\$ (80,779)</u>	<u>\$ -</u>	<u>\$ 1,223,426</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, 2017:

	Outstanding July 1, 2016	Additions	Reductions	Outstanding June 30, 2017	Due Within One Year
Installment purchase agreement	\$ 177,586	\$ -	\$ 33,842	\$ 143,744	\$ 34,660
Net pension liability	10,746	3,343	1,132	12,957	-
	<u>\$ 188,332</u>	<u>\$ 3,343</u>	<u>\$ 34,974</u>	<u>\$ 156,701</u>	<u>\$ 34,660</u>

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, 2017, 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. \$ 143,745

Net pension liability 12,957

Total long-term debt – governmental activities \$156,702

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, 2017 are as follows:

Maturity	Installment Purchase Agreement		Total	
	Principal	Interest	Principal	Interest
2018	34,660	3,058	34,660	3,058
2019	35,497	2,220	35,497	2,220
2020	36,355	1,362	36,355	1,362
2021	37,233	484	37,233	484
Totals	<u>\$ 143,745</u>	<u>\$ 7,124</u>	<u>\$ 143,745</u>	<u>\$ 7,124</u>

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, 2016. Access to the report can be found on LASERS website, www.lasersonline.com, or the Louisiana Legislative Auditor's website, 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).

Funding Policy (Continued)

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	
Louisiana State Employees' Retirement System			
Judges hired before 1/1/2011	38.10%	10.00%	
Judges hired after 12/31/2010	39.30%	10.00%	
Plan	2017	2016	2015
Louisiana State Employees' Retirement System	\$ 1,020	\$ 1,132	\$ 1,189

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, 2017 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, 2017	Current Measurement Rate	Previous Measurement Rate	Increase (Decrease)
LASERS	\$ 12,957	0.0002%	0.0002%	0.00%

The Town recognized a pension expense of \$687 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2017, 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	\$ 8	\$ (120)
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,614	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	-
Differences between allocated and actual contributions	77	-
Employer contributions subsequent to the measurement date	1,020	-
	<u>\$ 2,719</u>	<u>\$ (120)</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Town reported a total of \$1,020 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, 2017.

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
2017	\$ 261
2018	254
2019	660
2020	404
	\$ 1,579

Actuarial Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability for the plan as of June 30, 2017:

	Measurement/ Valuation Date	Expected Remaining Service Lives	Investment Rate of Return
LASERS	June 30, 2017	3 years	7.75%; 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 3.0% and upper range of 5.5%.

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.

Termination, Disability, and Retirement

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

Actuarial Assumptions (Continued)

The following table provides a summary of the best estimates of arithmetic/ geometric real rates of return for each major asset class included in each of the Retirement Systems' target asset allocations as of June 30, 2016:

Expected Long Term Real Rates of Return	
Asset Class	2016
Cash	-0.24%
Domestic Equity	4.31%
International Equity	5.48%
Domestic Fixed Income	1.63%
International Fixed Income	2.47%
Alternative Investments	7.20%
Global Tactical Asset Allocation	2.92%
Total Fund	5.30%
Inflation	3.25%
Expected Arithmetic Nominal Return	8.55%

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.

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

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:

	<u>1.0% Decrease</u>	<u>Current Discount Rate</u>	<u>1.0% Increase</u>
LASERS			
Discount Rates	6.75%	7.75%	8.75%
Shares of Net Pension Liability	\$ 15,919	\$ 12,957	\$ 10,440

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. As of June 30, 2017, 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2017, 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.

In November 2017, a settlement was reached for a lawsuit that was filed against the Town's and its former Police Chief in 2014. This lawsuit was settled for \$56,925 and is reflected in the Town financial statements.

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, 2017, there were no assets held by Nationwide on behalf of Town employees.

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, 2017, Council members received compensation, as follows:

<u>Name</u>	<u>Amount</u>
Randy Anny	\$ 2,550
Wanda Leblanc Bourgeois	2,600
Marvin L. Martin, Sr.	2,500
Pattie Melancon Poche'	2,550
Donald Schexnayder	2,550
Total	<u>\$ 12,750</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
REVENUES				
Taxes:				
Sales and use	\$ 607,250	\$ 612,250	\$ 646,969	\$ 34,719
Franchise	95,000	95,000	96,634	1,634
Ad valorem	62,000	57,000	62,502	5,502
Other	2,500	2,500	4,160	1,660
Licenses and permits	106,200	84,100	109,515	25,415
Charges for services	10,300	15,800	21,247	5,447
Grants and contributions	-	128,000	195,687	67,687
Fines	1,000	4,250	2,957	(1,293)
Investment income	300	1,020	1,274	254
Miscellaneous	750	750	1,851	1,101
Total revenues	<u>885,300</u>	<u>1,000,670</u>	<u>1,142,796</u>	<u>142,126</u>
EXPENDITURES				
Current function:				
General government	209,250	228,400	226,798	1,602
Public safety:				
Police	363,100	367,900	425,698	(57,798)
Fire	56,000	57,000	42,522	14,478
Highways and streets	167,900	366,400	378,298	(11,898)
Culture and recreation	37,000	42,450	51,546	(9,096)
Debt service	40,000	37,700	37,717	(17)
Capital outlay	29,000	37,900	32,630	5,270
Total expenditures	<u>902,250</u>	<u>1,137,750</u>	<u>1,195,209</u>	<u>(57,459)</u>
Excess (deficiency) of revenues over expenditures	(16,950)	(137,080)	(52,413)	84,667
OTHER FINANCING SOURCES (USES)				
Transfer from Utility Fund	6,000	6,000	6,000	-
Proceeds from sale of right-of-way	-	5,000	5,000	-
Proceeds from sale of capital assets	-	21,600	19,843	(1,757)
Net change in fund balance	(10,950)	(104,480)	(21,570)	<u>\$ 82,910</u>
FUND BALANCE				
Beginning of year	<u>830,157</u>	<u>864,496</u>	<u>864,496</u>	
End of year	<u>\$ 819,207</u>	<u>\$ 760,016</u>	<u>\$ 842,926</u>	

See Independent Auditors' Report.

TOWN OF SORRENTO, LOUISIANA
SCHEDULE OF PROPORTIONATE SHARE
OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS (1)

Louisiana State Employees' Retirement System (LASERS):

As of the fiscal year ended (2):	2017	2016	2015
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)	\$ 12,957	\$ 10,746	\$ 10,192
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	442.67%	367.13%	348.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.70%	62.70%	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)

Louisiana State Employees' Retirement System (LASERS):

As of the fiscal year ended	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Excess (Deficiency)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
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.

TOWN OF SORRENTO, LOUISIANA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2017

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 accrual basis of accounting, which is described in Note 1 to the Town's financial statements for the year ended June 30, 2017. 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 assumptions for the year ended June 30, 2017.

Changes of Assumptions

There were no changes of benefit assumptions for the year ended June 30, 2017.

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

For the year ended June 30, 2017

Agency Head: Michael Lambert, Mayor

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 9,945
Reimbursements	<u>410</u>
	<u>\$ 10,355</u>

SPECIAL INDEPENDENT AUDITORS' REPORTS



**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, 2017, 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 dated December 28, 2017.

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 disclose an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedules of findings and responses as item 2017-001.

Town of Sorrento Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Deen, Dupuy & Ruiz

Gonzales, Louisiana
December 28, 2017

TOWN OF SORRENTO, LOUISIANA

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of The Town of Sorrento.
2. No significant deficiencies are reported in the 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. One instance of noncompliance material to the financial statements of Town of Sorrento was disclosed during the audit.

B. FINANCIAL STATEMENT FINDINGS

None

C. 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.

Criteria: Louisiana Revised Statute 39:1311(A) (1-2) requires that the budget shall be amended when total revenue and other sources plus projected revenue and other sources for the remainder of the year, within a fund, are failing to meet total budgeted revenues and other sources by five percent or more and/or when total actual expenditures and other uses plus projected expenditures and other uses for the remainder of the year, within a fund, are exceeding the total budgeted expenditures and other uses by five percent or more.

Cause: The budget was not properly amended at year-end which resulted in a budget violation.

Effect: The unfavorable variance of expenditures of more than five percent is a violation of Louisiana Revised Statute 39:1311(A) (1-2).

Recommendation: The town should evaluate the budget for the General Fund throughout the fiscal year and amend the budget when necessary in a timely fashion.

Management's corrective action plan: The finding resulted from an accrual that was made to record a lawsuit settlement subsequent to year end. We did not deem it appropriate to amend the budget four months after year end.

TOWN OF SORRENTO, LOUISIANA

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

A. FINDINGS - FINANCIAL STATEMENTS

NONE

B. FINDINGS- COMPLIANCE

NONE



**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, 2016 through June 30, 2017. 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

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:

- 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. (exception)

Managements response: The Town only has two office personnel. One of which performs accounting function. We cannot separate this function.

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

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

- d) **Receipts**, including receiving, recording, and preparing deposits.

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

- 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 covering the above items.

Managements response: We will adopt a policy.

- 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.

No policy was provided. (Exception)

Managements response: We will consider adopting a written policy for 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, and (5) monitoring card usage.

The Town does not have a credit card policy.

Managements Response: The Town has one credit card. Purchase made on the card and payments on the card are subject to the Town's purchasing and disbursement policy.

- 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. Note: Ethics requirements are not applicable to nonprofits.

The Town does not have an ethics policy.

Managements Response: The Town follows the State's policy. We will adopt a 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. (Exception)

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

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:
- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

Obtained and reviewed minutes of the managing board for the fiscal period noting that the board met monthly. However, there were two meetings without a quorum.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

The minutes did not include monthly budget-to-actual comparisons for the major funds.

Managements Response: Monthly budget to actual comparisons are provided to the board each month. We will reference them in the board minutes.

- If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

There was no deficit spending noted.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Obtained and reviewed the minutes of the managing board for the fiscal period noting that non-budgetary financial information was referenced.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

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

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three-year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. **Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.** For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

- a) Bank reconciliations have been prepared;

Obtained bank statements and reconciliations for all months in the fiscal period for all selected accounts noting that reconciliations have been prepared for all months.

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

The bank reconciliations prepared for all accounts include evidence that a member of management has reviewed each bank reconciliation.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Obtained bank statements and reconciliations for all months in the fiscal period noting management did not have documentation reflecting that it has researched the one reconciling item that has been outstanding for more than 6 months as of the end of the fiscal period.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

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

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three-year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* **For each cash collection location selected:**

- a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

Collections are performed by two employees. The two employees responsible for collecting cash are bonded. One employee responsible for collecting cash is responsible for depositing the cash in

the bank, recording the related transaction, and reconciling the related bank account. The other employee responsible for collecting cash is responsible for depositing the cash in the bank. Both employees share the same cash drawer at one location.

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) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

The Town does not have a formal process to reconcile collections to the general ledger by revenue source by a person who is not responsible for collections.

Management's response: Efforts will be made to segregate duties in the collection process to the extent possible. However, we only have two office employees.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

- Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

There is one cash collection site for all revenue sources. The Town does not maintain documentation that notes the date payments are received.

Management's response: While it is not a written policy, generally, the Town makes deposits three times per week.

- Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Sequentially numbered receipts and/or other related collection documentation supported the cash collection for the Utility fund. The Town does use this for the various checks received by the General Fund.

- 7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

The entity does not have a formal process specifically defined to determine completeness of all collections, including electronic transfers, for each revenue source by a person who is not responsible for collections.

Management's response: Efforts will be made to develop a formal process to determine completeness of all cash collections, including transfers, for each revenue source to the extent possible with the limited number of employees involved.

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

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

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

Of the twenty-five disbursements tested, four were for purchases. These four purchases were supported by purchase orders.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

The purchase orders were approved by a person who did not initiate the purchase.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

The payments for the purchases contained approved purchase orders and invoices. The Town does not use receiving reports.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

The person responsible for processing payments is not prohibited from adding vendors to the entity's purchasing/disbursement system.

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. Management feels that this is the most cost-efficient process for the Town with the limited number of resources available.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

The person who records disbursements cannot sign checks. The mayor can sign checks and initiate a purchase.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

The supply of unused checks is maintained in a locked location. This locked location is under the control and access of a person who does not have signatory authority and system access to print checks.

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

No signature stamp or signature machine is utilized.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation 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.]]

On the month tested, supporting documentation was reviewed and approved, in writing by someone other than the authorized card holder.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

No finance charges and/or late fees were assessed on the month tested.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased)

Each transaction was supported by an original itemized receipt.

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

Documentation of business/public purpose was provided without exception.

- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

All other documentation appeared to be in order.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

No transactions that were tested reflected failures to comply with the Town's written policies, nor were any \$10,000 or more requiring compliance with the Louisiana Public Bid Law.

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g.

cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

No evidence of noncompliance noted in the transactions tested.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

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

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

The Town's policy specifies the rates for mileage but not for other items.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

All expense reimbursements tested were in accordance with the Town's written policy without exception.

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]

Itemized receipts were provided for all expense tested that identified what was purchased or reimbursed without exception.

- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).

Each expense was supported by documentation of business purpose without exception.

- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).

Documentation in accordance with written policies was provided without exception.

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

The Town's documentation of business/public purpose for tested expenses appeared to comply with the requirements of Article 7, section 14 of the Louisiana Constitution.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Each expense tested was supported by documentation of review and approval in writing by someone other than the traveler without exception.

Contracts

- 20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Obtained listing of contracts in effect and management's representation that listing was complete.

- 21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

No exceptions noted.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).

Not applicable.

- If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

No noncompliance noted.

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

The contracts selected were not amended during the current fiscal period.

- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

Payments made on each contract were within the terms and conditions of the contract.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Documentation was provided reflecting approval by the board of the contracts as it is not required by policy or law.

Payroll and Personnel

- 22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

Obtained listing of employees with their related salaries and management's representation that listing was complete.

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

No exceptions noted.

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Changes made to hourly pay rates/salaries during the year for the Town clerk were approved in writing. However, changes for the other employees was not.

- 23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether 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) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

No exceptions noted.

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

The Town does not maintain formal leave records.

Management's Response: The Town does not pay for unused vacation. Employees either use the current years or lose it. We will set up a tracking system for the current year.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

The Town does not make termination payments.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Documentation reflected that payroll tax return/reports and retirement reports were submitted to the applicable agencies by the required deadlines.

Ethics (excluding nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

The Town did not have documentation of ethics compliance during the current year.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied

with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Management asserted that they have received no allegations during the fiscal period.

Debt Service (excluding nonprofits)

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

No debt was issued during the fiscal period.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

The Town made all required payments on the notes. The debt does not require reserves of covenant compliance.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Not applicable.

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation 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.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

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

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

No exceptions noted.

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.

Diez, Dupuy & Rain

Gonzales, Louisiana
December 28, 2017