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TOWN OF SORRENTO, LOUISIANA

FINANCIAL STATEMENTS

June 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-26-05

TOWN OF SORRENTO, LOUISIANA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **TOWN OF SORRENTO (TOWN)** as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Town has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 38, *Certain Financial Statement Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*, as of June 30, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2004, on our consideration of the **TOWN OF SORRENTO, LOUISIANA's** internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (pages 3 - 13) and budgetary comparison information (page 40 and 41) on Exhibits B and B-1 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The statistical information (Schedules S-1 through S-7) are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements, and, in our opinion, based on our audit, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
December 7, 2004

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, 2004. Please read it in conjunction with the Town's financial statements, which begin on page 15. 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 2004, the Town of Sorrento experienced a customary year financially as governmental revenues increased slightly relative to prior years, as did the governmental expenditures. The utility fund continued to experience an operating deficit that is not sustainable and the priorities of operating and infrastructure needs and obligations are greater than available resources. Accordingly, there must be a logical and thoughtful alignment of the Town's resources to community needs.

The major financial highlights for 2004 are as follows:

- Assets of the Town's primary government exceeded its liabilities at the close of the year by approximately \$1.7 million (net assets). Of this amount, approximately \$662,000 (unrestricted net assets) may be used without restrictions to meet the Town's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by approximately \$95,000 during 2004.

Governmental activities' net assets increased by approximately \$44,000, primarily the result of increases associated with revenue generated from traffic related fines.

Business type total net assets increased by approximately \$52,000, primarily the result of grant funding of \$60,000 for a water system construction project.

- As of the end of the year, the primary government's governmental funds reported a fund balance of \$314,000, a decrease of \$65,000 in comparison to the prior year. Approximately 37% of the fund balance is reserved for restricted purposes (\$119,000) relating to recreation, fire protection and senior citizen programs.

Significant aspects of the Town's financial well being, as of and for the year ended June 30, 2004, are detailed throughout this analysis.

USING THIS ANNUAL REPORT

With the implementation of Governmental Accounting Standards Board Statement No. 34, a government's presentation of financial statements has been greatly changed. The new statements focus on the government as a whole and on major individual funds. Both 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 Assets and the Statement of Activities (on pages 15 and 16) 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 17. 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 and the 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 15. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way to determine if the Town is in better condition as a result of the year's financial results. These statements include all assets and liabilities 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. Since this is the year of implementation of this reporting model, comparative financial data has not been presented. In future years, a comparative analysis of government-wide data will be presented.

These two statements report the Town's net assets and related changes. The Town's financial health, or financial position can be measured by its net assets—the difference between assets and liabilities. Over time, increases or decreases in the Town's net assets 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 roads and buildings, to assess the overall health of the Town.

In the Statement of Net Assets 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 fees and fines finance most of these activities.

Business-type activities - the Town charges a fee to customers to help it cover cost of certain services it provides. The Town maintains garbage and sewer operations and is in the process of constructing a water system. The business-type activities have historically generated an operating deficit, primarily due to depreciation expense on the Town's sewer system.

At June 30, 2004, the Town's net assets were approximately \$1.7 million, of which \$662,000 was unrestricted. Restricted net assets are reported separately to show legal constraints from legislation that limits the Town's ability to use those net assets for day-to-day operations.

The following table reflects the condensed Statement of Net Assets for 2004. Prior year data is not presented in the implementation year, but will be included in future years for comparison purposes.

Town of Sorrento, Louisiana
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 349,173	\$ 475,495	\$ 824,668
Capital assets	237,283	662,502	899,785
Total assets	<u>586,456</u>	<u>1,137,997</u>	<u>1,724,453</u>
Current and other liabilities	35,805	7,971	43,776
Long-term liabilities	13,014	-	13,014
Total liabilities	<u>48,819</u>	<u>7,971</u>	<u>56,790</u>
Net assets:			
Invested in capital assets, net of related debt	224,268	662,502	886,770
Restricted	118,984	-	118,984
Unrestricted	194,385	467,524	661,909
Total net assets	<u>\$ 537,637</u>	<u>\$ 1,130,026</u>	<u>\$ 1,667,663</u>

Net assets of the Town's governmental activities increased by approximately 9% or \$44,000 during 2004. Unrestricted net assets represent the part of net assets that can be used to finance day-to-day operations without constraints established by legislation or other legal requirements.

The \$194,000 in unrestricted net assets of governmental activities represents the accumulated results of operations. It means that if the Town had to pay off all of the debt, \$194,000 would remain. The changes in net assets are discussed later in this analysis.

The net assets of the Town's business activities increased by approximately \$52,000 during 2004. The Town operates sewer and garbage services and is currently constructing a water distribution system. The primary focus of this activity is to operate on a profitable basis. During 2004, the Town received approximately \$60,000 in capital grant funding for construction of a water distribution system. However, operationally, the Town experienced an \$8,000 deficit, excluding the capital grant, from sewer and garbage. As a result, the Town anticipates reviewing the user rate charge during 2005 to eliminate the operating deficit.

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, Louisiana
Changes in Net Assets
For the year ended June 30, 2004

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 274,613	\$ 83,952	\$ 358,565
Operating grants and contributions	2,449	-	2,449
Capital grants and contributions	32,458	60,205	92,663
General revenues:			
Ad Valorem taxes	37,945	-	37,945
Sales taxes	286,408	-	286,408
Franchise taxes	63,686	-	63,686
Other general revenues	23,425	4,061	27,486
Gain of disposal of asset	7,874	-	7,874
Total revenues	<u>728,858</u>	<u>148,218</u>	<u>877,076</u>
Functions/Program Expenses:			
General government	167,199	-	167,199
Public safety	378,742	-	378,742
Highway and streets	121,935	-	121,935
Culture and recreation	16,659	-	16,659
Wastewater treatment and garbage	-	96,350	96,350
Interest on long-term debt	765	-	765
Total expenses	<u>685,300</u>	<u>96,350</u>	<u>781,650</u>
Increase in net assets	43,558	51,868	95,426
Beginning net assets	<u>494,079</u>	<u>1,078,158</u>	<u>1,572,237</u>
Ending net assets	<u>\$ 537,637</u>	<u>\$ 1,130,026</u>	<u>\$ 1,667,663</u>

The increase in net assets of \$95,000 is primarily attributable to the grant funding received for the construction of the water system and other general governmental needs.

As a result of this years' operations, the Town's financial position improved over the prior year by approximately \$95,000. Although the Town's cash position declined by \$60,000 during 2004, the Town made investments in capital assets of approximately \$200,000 relating to land purchased for the development of recreational activities, equipment for the Town's police department and construction of a water distribution system. As a result, the Town is utilizing its resource base to improve current services while adding new services.

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 17 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 Assets 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 Assets 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 only one proprietary fund.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in 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 fund, which is the general fund.

The statistical information (Pages S-1 through S-7) is included for additional information and analysis and does not constitute a part of the basic financial statements.

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:

	General Fund	
	2004	2003
Revenues	\$ 708,735	\$ 622,275
Other financing sources	33,158	-
Total financing sources	741,893	622,275
Expenditures	807,270	704,928
Deficit	(65,377)	(82,653)
Fund balance, June 30, 2003	379,511	462,164
Fund balance, June 30, 2004	\$ 314,134	\$ 379,511

The Town's General Fund experienced a deficit of \$65,000 during 2004 that primarily related to capital expenditures for property of approximately \$90,000 for recreational purposes. At year end, fund balance was approximately \$314,000. Approximately \$195,000 is unrestricted and available for utilization at the Town's discretion. The remainder (\$119,000) of the fund balance is designated to subsequent year expenditures and restricted purposes, and therefore, is not available for utilization.

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

<u>Source of Revenue</u>	<u>2004</u>		<u>2003</u>	
	<u>Revenue</u>	<u>Percent</u>	<u>Revenue</u>	<u>Percent</u>
Taxes	\$ 389,000	52%	\$ 414,000	67%
Intergovernmental	23,000	3%	-	0%
Fines	177,000	24%	96,000	15%
Licenses and permits	78,000	11%	62,000	10%
Miscellaneous	<u>75,000</u>	<u>10%</u>	<u>50,000</u>	<u>8%</u>
Total	<u>\$ 742,000</u>	<u>100%</u>	<u>\$ 622,000</u>	<u>100%</u>

Revenues of the primary government for general governmental fund types for 2004 totaled \$742,000, compared to \$622,000 for the previous year, representing a \$120,000 increase or 20% increase. The change in revenue primarily relates to increases in fines and licenses and permits collections. As noted above, the Town's activities are largely supported by tax revenues, which represent 52% of total governmental resources.

Expenditures of the primary government increased \$102,000 in 2004. Expenditures for general governmental functions for each major function are summarized in the following table.

<u>Function</u>	<u>2004</u>		<u>2003</u>	
	<u>Expenditure</u>	<u>Percent</u>	<u>Expenditure</u>	<u>Percent</u>
General government	\$ 157,000	19%	\$ 255,000	36%
Public safety	410,000	51%	261,000	37%
Highways and streets	116,000	14%	112,000	16%
Culture and recreational services	106,000	13%	-	0%
Capital outlay	<u>18,000</u>	<u>2%</u>	<u>77,000</u>	<u>11%</u>
Total	<u>\$ 807,000</u>	<u>100%</u>	<u>\$ 705,000</u>	<u>100%</u>

The largest increases in spending occurred in culture and recreational services of \$106,000 and public safety of \$148,000 or 56% in aggregate. The largest decrease in spending occurred in general government of \$98,000 or 38%. The increase in public safety spending was primarily due to the purchase of two police patrol vehicles. One of the vehicles was purchased through a capital lease and the other was purchased to replace a damaged unit with insurance proceeds received. In addition, the Town has a variable cost component for court costs from processing traffic fines. As a result, as fine collections increase, the cost of court also increases and represented the remainder of the increase in costs of the police department.

The Town culture and recreational services increased due to the purchase of 16 acres of land for future construction of recreational facilities. The decreases in operating expenditures for the general fund related to management directives for operating cost reductions relating to budgetary constraints.

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 and is reflective of the change that occurs with financial related matters throughout the fiscal year. The most significant changes during 2004 were as follows:

- An increase for tax revenue received in 2004 over the amounts originally budgeted at the beginning of the year.
- To increase operating expenditures primarily due to the increase in anticipated court cost relating to traffic fine collections and insurance cost for general liability and employee health.
- The land purchase made with recreational funds during 2004.

With these adjustments, the actual charges to appropriations (expenditures) were \$163,000 more than the related final budget appropriations of \$645,000. The most significant variance occurred in the Town's Culture and Recreation department, where expenditures were \$106,000 more than anticipated expenditures. The primary reason for this variance was due to the purchase of the recreational property, which was not budgeted by the Town Council when the budget was amended at year end.

Additionally, the appropriation for public safety was increased from the original budget during 2004 as management of the police department placed priority in this area for the generation of revenue.

The Town experienced increased expenditures in all departments relating to insurance and fuel. In particular, employee health and the Town's general liability insurance costs increased. Finally, rising fuel costs have impacted the Town for vehicle fuel purchased along with Town utility expenditures.

Finally, resources available for appropriation were \$709,000 with expenditures appropriated at \$807,000, with the deficit absorbed by the fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the Town had \$900,000 invested in a broad range of capital assets, including vehicles, fire equipment, computer equipment, office furniture, land, buildings, and sewer treatment systems. This amount represents a net increase of \$156,000, or 21 percent, over last year.

	Governmental Activities	Business-type Activities	Totals
Land	\$ 127,750	\$ 60,366	\$ 188,116
Construction in progress	-	60,148	60,148
Buildings	41,739	-	41,739
Improvements other than buildings	3,321	-	3,321
Equipment and vehicles	64,473	10,203	74,676
Sewer system	-	510,628	510,628
Water well	-	21,157	21,157
Total assets, net of depreciation	\$ 237,283	\$ 662,502	\$ 899,785

The two major capital additions for 2004 were related to the construction of the water distribution system and the purchase of 16 acres of land for use in recreational purposes. Capital outlay related to these projects during 2004 was \$47,000 and \$90,000, respectively. The water project cost is recorded as construction in progress and will not be capitalized and depreciated until the project is completed, which is expected in 2005. The Town hired a contractor to construct the water distribution system for approximately \$680,000, which began in July 2004. The Town anticipates the completion of the water distribution system project and the start of capital outlay for recreational facilities on the purchased property during 2005. Finally, the Town elected to capitalize infrastructure assets on a prospective basis as a Phase 3 government, which is provided for in GASB No. 34. More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

Debt

During 2004 the Town entered into a capital lease to purchase a new police vehicle. This represents the Town's only long-term debt. See recap below:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital lease	\$ -	\$ 20,138	\$ 7,124	\$ 13,014

The State of Louisiana limits the amount of general obligation debt that municipalities can issue to 35 percent of the assessed value of all taxable property within the Town's corporate limits. The Town's outstanding general obligation debt is significantly below this \$1.8 million state-imposed limit. More detailed information about the Town's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2005 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 increasing cost of fuel, including natural gas. With the high price of fuel in recent years, these companies have experienced financial difficulty resulting in reduction of personnel staffing and the rate of plant expansion, if any. As a result, the local economy has been impacted by the financial concerns in the Town.

An important factor affecting the budget is the Town's sales tax collections that approximate 59% of budgeted revenue. The Town budgeted a decrease in revenue of approximately \$109,000. The decrease relates to declines projected for sales and use tax collections (\$26,000), fines (\$28,000) and licenses and permits (\$9,000) and miscellaneous revenue (\$25,000). These decreases primarily relate to the Town's conservative budget approach. Additionally, the Town is projecting a decrease in expenditures of \$176,000 that relates to decreases in capital outlay spending in recreation (\$107,000) and declines in expenditures in public safety of (\$92,000). If these estimates are realized during 2005, fund balance is expected to decrease by \$25,000 compared to \$65,000 during 2004.

As discussed earlier the Town intends to complete the water distribution system project and proceed with construction of recreational facilities on the 16 acre tract of land purchased during the 2005.

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 ASSETS

June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 175,813	\$ 461,365	\$ 637,178
Accounts receivable, net	13,745	6,710	20,455
Due from other governments	35,317	5,145	40,462
Restricted assets	124,298	2,275	126,573
Capital assets:			
Non-depreciable	127,750	120,514	248,264
Depreciable, net	109,533	541,988	651,521
Total assets	\$ 586,456	\$ 1,137,997	\$ 1,724,453
LIABILITIES			
Accounts payable and accrued liabilities	\$ 25,361	\$ 5,696	\$ 31,057
Payable from restricted assets	5,314	2,275	7,589
Claims reserve	5,130	-	5,130
Long-term payables:			
Due within one year	6,310	-	6,310
Due in more than one year	6,704	-	6,704
Total liabilities	48,819	7,971	56,790
NET ASSETS			
Investment in capital assets, net of related debt	224,269	662,502	886,771
Restricted for other purposes	118,984	-	118,984
Unrestricted	194,384	467,524	661,908
Total net assets	537,637	1,130,026	1,667,663
Total liabilities and net assets	\$ 586,456	\$ 1,137,997	\$ 1,724,453

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, 2004

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary government:							
Governmental activities:							
General government	\$ 167,199	\$ 97,156	\$ -	\$ 13,100	\$ (56,943)	\$ -	\$ (56,943)
Public safety:							
Police	349,788	177,457	2,449	19,358	(150,524)	-	(150,524)
Fire	28,954	-	-	-	(28,954)	-	(28,954)
Highway and streets	121,935	-	-	-	(121,935)	-	(121,935)
Culture and recreation	16,659	-	-	-	(16,659)	-	(16,659)
Interest on long-term debt	765	-	-	-	(765)	-	(765)
Total governmental activities	<u>685,300</u>	<u>274,613</u>	<u>2,449</u>	<u>32,458</u>	<u>(375,780)</u>	<u>-</u>	<u>(375,780)</u>
Business-type activities:							
Utility operations	<u>96,350</u>	<u>83,952</u>	<u>-</u>	<u>60,205</u>	<u>-</u>	<u>47,807</u>	<u>47,807</u>
Total business-type activities	<u>96,350</u>	<u>83,952</u>	<u>-</u>	<u>60,205</u>	<u>-</u>	<u>47,807</u>	<u>47,807</u>
Total primary government	<u>\$ 781,650</u>	<u>\$ 358,565</u>	<u>\$ 2,449</u>	<u>\$ 92,663</u>	<u>(375,780)</u>	<u>47,807</u>	<u>(327,973)</u>
General revenues:							
Taxes:							
Property					37,945	-	37,945
Sales					286,408	-	286,408
Franchise					63,686	-	63,686
Other					998	-	998
Grants and contributions not restricted to specific programs					19,644	234	19,878
Investment earnings					2,783	3,827	6,610
Gain on sale of capital assets					7,874	-	7,874
Total general revenues and transfers					<u>419,338</u>	<u>4,061</u>	<u>423,399</u>
Change in net assets					43,558	51,868	95,426
Net assets - beginning of year					<u>494,079</u>	<u>1,078,158</u>	<u>1,572,237</u>
Net assets - end of year					<u>\$ 537,637</u>	<u>\$ 1,130,026</u>	<u>\$ 1,667,663</u>

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

TOWN OF SORRENTO, LOUISIANA

BALANCE SHEET GOVERNMENTAL FUND

June 30, 2004

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 175,813
Accounts receivable, net	13,745
Due from other governmental units	35,317
Restricted cash	<u>124,298</u>
 Total assets	 <u>\$ 349,173</u>
 LIABILITIES	
Accounts payable and accrued liabilities	\$ 24,595
Payable from restricted assets	5,314
Claims reserve	<u>5,130</u>
 Total liabilities	 <u>35,039</u>
 FUND EQUITY	
Fund balance:	
Reserved	118,984
Unreserved	<u>195,150</u>
 Total fund equity	 <u>314,134</u>
 Total liabilities and fund equity	 <u>\$ 349,173</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 ASSETS

June 30, 2004

Total net assets reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds (Exhibit A-2)	\$	314,134
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.		237,283
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:		
Accrued interest payable		(766)
Capital lease payable		(13,014)
		(13,780)
Net assets of governmental activities (Exhibit A)	\$	537,637

TOWN OF SORRENTO, LOUISIANA

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND**

For the year ended June 30, 2004

	<u>General Fund</u>
REVENUES	
Taxes:	
Sales and use	\$ 286,408
Franchise	63,686
Ad valorem	37,945
Other	998
Licenses and permits	78,124
Fines	177,457
Intergovernmental	22,657
Miscellaneous	<u>41,460</u>
Total revenues	<u>708,735</u>
EXPENDITURES	
General government	157,390
Public safety:	
Police	380,154
Fire	28,954
Highways and streets	116,063
Culture and recreation	106,409
Capital outlay	<u>18,300</u>
Total expenditures	<u>807,270</u>
Excess of expenditures over revenues	<u>(98,535)</u>
OTHER FINANCING SOURCES	
Proceeds from capital leases	20,138
Insurance proceeds	<u>13,020</u>
Total other financing sources	<u>33,158</u>
Excess of expenditures over revenues and other financing sources	(65,377)
FUND BALANCE	
Beginning of year	<u>379,511</u>
End of year	<u>\$ 314,134</u>

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

TOWN OF SORRENTO, LOUISIANA

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

For the year ended June 30, 2004

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

Net change in fund balance - total governmental fund (Exhibit A-4)		\$ (65,377)
<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	154,848	
Depreciation expense	(39,237)	115,611
<p>The net effect of various miscellaneous transactions involving capital assets, such as sales, trade-ins, and donations, is to increase net assets.</p>		
Donated assets	12,250	
Insurance proceeds	(13,020)	
Gain from insurance proceeds	7,874	7,104
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of activities.</p>		
Proceeds from capital lease	(20,138)	
Principal payments on debt	7,123	(13,015)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Accrued interest payable		(765)
Change in net assets of governmental activities (Exhibit A-1)		\$ 43,558

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

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

STATEMENT OF NET ASSETS

June 30, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$	461,365
Accounts receivable, net		6,710
Due from other governments		<u>5,145</u>

Total current assets 473,220

Restricted assets 2,275

Capital assets:

Non-depreciable		120,514
Depreciable, net		<u>541,988</u>

Total assets \$ 1,137,997

LIABILITIES

Current liabilities:

Accounts payable	\$	5,696
Payable from restricted assets		<u>2,275</u>

Total current liabilities 7,971

NET ASSETS

Investment in capital assets,
net of related debt

662,502

Unrestricted

467,524

Total net assets 1,130,026

Total liabilities and net assets \$ 1,137,997

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

For the year ended June 30, 2004

OPERATING REVENUES

Charges for services:

Garbage	\$ 63,184
Sewer	<u>21,001</u>

Total operating revenues	<u>84,186</u>
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OPERATING EXPENSES

Depreciation	21,743
Garbage	56,998
Sewer	14,409
Bad debts	<u>3,200</u>

Total operating expenses	<u>96,350</u>
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Operating loss	(12,164)
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NON-OPERATING

Interest income	<u>3,827</u>
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Loss before contributed capital	(8,337)
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CONTRIBUTIONS

Contributed capital - grant from governmental sources	<u>60,205</u>
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Net increase in net assets	51,868
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NET ASSETS

Beginning of year	<u>1,078,158</u>
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End of year	<u>\$ 1,130,026</u>
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**TOWN OF SORRENTO, LOUISIANA
PROPRIETARY FUND - UTILITY FUND**

STATEMENT OF CASH FLOWS

For the year ended June 30, 2004

CASH FLOW FROM OPERATING ACTIVITIES

Receipts from customers	\$ 81,111
Payments to suppliers	<u>(72,376)</u>

Net cash provided by operating activities	<u>8,736</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Fixed asset additions	(68,120)
Capital grants	<u>55,060</u>

Net cash used for capital and related financing activities	<u>(13,061)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>3,827</u>
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Net increase in cash	(498)
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CASH

Beginning of period	<u>461,863</u>
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End of period	<u><u>\$ 461,365</u></u>
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RECONCILIATION OF OPERATING LOSS TO

NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (12,164)
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Adjustments of operating loss:

Depreciation	21,743
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Allowance for doubtful accounts	3,200
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Change in operating assets and liabilities:

Accounts receivable	(3,075)
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Accounts payable and accrued liabilities	<u>1,307</u>
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Net cash provided by operating activities	<u><u>\$ 11,011</u></u>
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TOWN OF SORRENTO, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

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). Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies established in GAAP and used by the Town are described below.

In June 1999, the GASB approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - 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 full accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Town has implemented the general provisions of the statement in the current year. However, the Town has elected to forego retroactive restatement of the financial statements for infrastructure expenditures made in previous years as provided for Phase 3 governments in GASB Statement No. 34. The Town will capitalize infrastructure improvements on a prospective basis.

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)

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Town of Sorrento for the financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability.

The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the municipality to impose its will on that organization and/or
 - b. *The potential for the organization to provide specific financial benefits to or impose specific burdens on the municipality.*
2. Organizations for which the municipality does not appoint a voting majority but are fiscally dependent on the municipality.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

As required by generally accepted accounting principles, these financial statements present the Town and where applicable its component units. However, there are no component units to be included 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 and combined non-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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets 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.

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 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 are 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. The Town does not have any non-major funds.

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.

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 Parish 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. The Town's enterprise fund has been considered a major fund. 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.

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 levied.

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 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, fines and forfeitures, and most 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 aid and grants.

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 aid and 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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

The investment policy of the Town is governed by state statutes that include depository and custodial contract provisions. The Town invests funds in accordance with L.R.S. 39:1211-1245 and 33:2955 which include, but are not limited to, United States Treasury Bonds, Treasury Notes, Treasury Bills, and fully collateralized interest bearing checking accounts and certificates of deposit. Other provisions require depositories to insure or collateralize all deposits in accordance with state law and require securities collateralizing deposits to be held by an independent third party with whom the Town has a custodial agreement. The Town primarily utilizes the Louisiana Asset Management Pool to invest idle funds.

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 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 directly 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 approximately \$8,200 was recorded at June 30, 2004.

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. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The Town had no interfund transactions, including receivables and payables at year-end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The accounting treatment of property, plant, and equipment (fixed 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, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed 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 fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. 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:

Buildings	25-40 years
Improvements	15-30 years
Machinery and Equipment	5-20 years
Utility System	5-50 years

A police vehicle with original cost of \$20,138 is accounted for as a capital lease. Amortization of such equipment is included in depreciation expense. Accumulated depreciation related to this vehicle was \$5,784 at June 30, 2004.

Fund Financial Statements

In the fund financial statements fixed assets used in governmental fund operations are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Fund Financial Statements (continued)

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 years
Equipment	5 years

Long-term Debt

The accounting treatment of long-term debt 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.

In the government-wide statement of net assets and in the proprietary fund type financial statements, long term debt is reported as liabilities. The long-term debt consists of a capital lease agreement for the purchase of a police car.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Reserves and Designations of Equity

Some portions of fund balance and/or retained earnings are reserved to indicate that a portion of equity is legally restricted to a specific future use and is not available for appropriation or expenditure.

Designated portions of fund balance and/or retained earnings indicate tentative future spending plans, which may be changed and are subject to subsequent authorization before expenditures can be made. The Town has made the following reserves and designations of equity: (a) *Designated for subsequent year's expenditures* is that portion of fund balance which has been budgeted to balance the following year's budgets, and (b) other designations are made for specific indicated purposes included in the title.

Interfund Transfers

Transfers between funds are included in the budgets of such funds. 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.*

Budget Policy and Budgetary Accounting

A proposed budget is prepared and submitted to the Mayor and 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 funds. 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.

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.

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.

Dedicated Sales Tax

The Town of Sorrento Council passed an ordinance, effective July 1, 1981, levying a one cent sales tax for the purposes of general operating expenses (70%), recreation (10%), fire protection (10%), and senior citizens programs (10%).

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.

At June 30, 2004, the Town's deposits (including demand deposit accounts and restricted cash) totaled \$763,751 and the related bank balances were \$815,047. The bank balance is categorized as follows:

Category 1 - Amount insured by the FDIC	\$ 100,000
Category 2 - Amount collateralized with securities held by the pledging financial institution's trust department in the Town's name	155,447
Investments not subject to categorization: Louisiana Asset Management Pool (LAMP)	<u>559,600</u>
Total	<u>\$ 815,047</u>

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Investment by the Town in the LAMP pools 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 - AD VALOREM TAXES

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

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

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

For the year ended June 30, 2004, taxes of 6.60 mills were levied on property with assessed valuations totaling \$5,220,250, and were dedicated to general government. Total taxes levied were \$37,945.

NOTE 4 - RESTRICTED ASSETS

Restricted cash at June 30, 2004, were applicable to the following:

Fire protection	\$	1,154
Garbage deposits		2,275
Law enforcement		13,301
Senior citizens programs		26,966
Recreation		<u>82,877</u>
Total	\$	<u>126,573</u>

NOTE 5 - CONCENTRATION OF CREDIT RISK - PROPRIETARY FUND

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.

NOTE 6 - FIXED ASSETS

Capital Assets

A summary of changes in capital assets for the year ended June 30, 2004, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 38,000	\$ 89,750	\$ -	\$ 127,750
Capital assets being depreciated:				
Buildings and improvements	183,695	18,300	-	201,995
Equipment and vehicles	277,880	59,048	(21,340)	315,588
Improvements other than buildings	10,019	-	-	10,019
Total capital assets being depreciated	<u>471,594</u>	<u>77,348</u>	<u>(21,340)</u>	<u>527,602</u>
Less accumulated depreciation for:				
Buildings and improvements	152,563	7,694	-	160,257
Equipment and vehicles	236,266	31,042	(16,194)	251,114
Improvements other than buildings	6,197	501	-	6,698
Total accumulated depreciation	<u>395,026</u>	<u>39,237</u>	<u>(16,194)</u>	<u>418,069</u>
Total capital assets, being depreciated, net	<u>76,568</u>	<u>38,111</u>	<u>(37,534)</u>	<u>109,533</u>
Governmental activities capital assets, net	<u>\$ 114,568</u>	<u>\$ 127,861</u>	<u>\$ (37,534)</u>	<u>\$ 237,283</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 60,366	\$ -	\$ -	\$ 60,366
Construction in process	12,821	47,327	-	60,148
Total capital assets, not being depreciated	<u>73,187</u>	<u>47,327</u>	<u>-</u>	<u>120,514</u>
Capital assets being depreciated:				
Sewer treatment plants	684,449	-	-	684,449
Water well, tank, & pump	60,450	7,972	-	68,422
Equipment	6,058	-	-	6,058
Total capital assets being depreciated	<u>750,957</u>	<u>7,972</u>	<u>-</u>	<u>758,929</u>
Less accumulated depreciation for:				
Sewer treatment plants	160,132	13,689	-	173,821
Water well, tank, & pump	33,248	6,842	-	40,090
Equipment	1,818	1,212	-	3,030
Total accumulated depreciation	<u>195,198</u>	<u>21,743</u>	<u>-</u>	<u>216,941</u>
Total capital assets being depreciated, net	<u>555,759</u>	<u>(13,771)</u>	<u>-</u>	<u>541,988</u>
Business-type activities capital assets, net	<u>\$ 628,946</u>	<u>\$ 33,556</u>	<u>\$ -</u>	<u>\$ 662,502</u>

NOTE 6 - FIXED ASSETS (CONTINUED)

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

Governmental activities:		
General government	\$	9,809
Public safety		23,185
Highways and streets		<u>6,243</u>
Total depreciation expense - governmental activities	\$	<u>39,237</u>

NOTE 7 - PENSION PLAN

Substantially all police employees of the Town of Sorrento can elect to be members of the Municipal Police Employees Retirement System of Louisiana ("System"), 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:

Plan Description.

All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire after at least 25 years of creditable service, or at or after age 50 with at least 20 years of creditable service, or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 percent of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana, 70809-2250, or (225)929-7411.

Funding Policy

Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the Town of Sorrento is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Town of Sorrento are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Town had no officers participating in the system during the year ending June 30, 2004.

NOTE 8 - LONG-TERM DEBT

Governmental Activities - Capital Lease Obligation

During fiscal year ending June 30, 2004, the Town entered into a capital lease agreement for the purchase of a vehicle valued at \$20,138 to be used by the police department. The capital lease is secured by the vehicle and is due in annual installments of \$7,124 through July 23, 2005, with interest of 6.25%.

On July 23, 2003 the Town made the first required payment of \$7,124, which included no interest expense. However, interest expense in the amount of \$765 has been accrued and included in the Statement of Activities (Exhibit A-1). The outstanding principal portion as of June 30, 2004 was \$13,014. Maturities of the capital lease payable are as follows:

Year	Principal	Interest	Total
2005	\$ 6,310	\$ 814	\$ 7,124
2006	<u>6,704</u>	<u>420</u>	<u>7,124</u>
Total	<u>\$ 13,014</u>	<u>\$ 1,234</u>	<u>\$ 14,248</u>

NOTE 9 - CONTINGENCIES

Construction and Professional Contracts

At June 30, 2004, the Town was committed for costs associated with a water system project for construction contracts of \$679,572 and engineering contracts of \$42,283.

Lawsuits

At June 30, 2004, several lawsuits are pending against the Town. In the opinion of Town management, the potential loss on lawsuits will not be material to the Town's financial statements. However, a loss of \$5,130 was accrued as of June 30, 2004 for a lawsuit settled after the fiscal year end.

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, except for the lawsuit stated above.

NOTE 10-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 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 a custodial account with a third party administrator who will hold the assets and income of the plan. Assets totaling \$12,104 are held by Nationwide, a deferred compensation administrator, under agreement with the Town.

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 11-COMPENSATION OF GOVERNING BOARD

	<u>Monthly</u>	<u>Annual</u>
Mayor - Camile Trabeau	\$ 765	\$ 9,180
Council Members		
Earl LeBlanc	200	2,400
Gilda Bourgeois	200	2,400
Edwin Pezant	200	2,400
Troy Braud	200	2,400
Paul Kerek	200	2,400
Total	<u>\$ 1,765</u>	<u>\$ 21,180</u>

NOTE 12-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Exceeding Appropriations

For the year ended June 30, 2004, the General Fund had an excess of expenditures over appropriations in public safety, highway and streets, and culture and recreation of approximately \$174,000.

NOTE 13-SUBSEQUENT EVENTS

The Town received a grant of approximately \$730,000 from the Louisiana Community Development Block Grant Program (LCDBG) to construct a municipal water system. Construction is scheduled to be completed during fiscal year 2005.

NOTE 14-PRIOR PERIOD ADJUSTMENT

Certain adjustments were made to June 30, 2003 beginning fund balances for reclassifications of expenditures recorded in the prior period. The Town recorded expenditures related to professional engineering costs associated with the water distribution system construction in the General fund during 2003. Such costs, \$12,821, were reclassified to the Utility fund as construction in progress.

**TOWN OF SORRENTO, LOUISIANA
GENERAL FUND**

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

For the year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
REVENUES				
Taxes:				
Sales and use	\$ 260,000	\$ 260,000	\$ 286,408	\$ 26,408
Franchise	50,000	60,000	63,686	3,686
Ad valorem	35,000	35,000	37,945	2,945
Other	-	-	998	998
Licenses and permits	70,000	70,000	78,124	8,124
Fines and forfeitures	150,000	145,000	177,457	32,457
Intergovernmental	-	-	22,657	22,657
Miscellaneous	<u>27,000</u>	<u>45,000</u>	<u>41,460</u>	<u>(3,540)</u>
Total revenues	<u>592,000</u>	<u>615,000</u>	<u>708,735</u>	<u>93,735</u>
EXPENDITURES				
General government	177,500	168,150	157,390	10,760
Public safety:				
Police	273,000	344,000	380,154	(36,154)
Fire	7,500	7,500	28,954	(21,454)
Highways and streets	114,000	105,000	116,063	(11,063)
Culture and recreation	-	-	106,409	(106,409)
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>18,300</u>	<u>1,700</u>
Total expenditures	<u>592,000</u>	<u>644,650</u>	<u>807,270</u>	<u>(162,620)</u>
Excess of expenditures over revenues	<u>-</u>	<u>(29,650)</u>	<u>(98,535)</u>	<u>(68,885)</u>
OTHER FINANCING SOURCES				
Proceeds from capital leases	-	-	20,138	20,138
Insurance proceeds	<u>-</u>	<u>-</u>	<u>13,020</u>	<u>13,020</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>33,158</u>	<u>33,158</u>
Excess of expenditures over revenues and other financing sources	<u>\$ -</u>	<u>\$ (29,650)</u>	<u>(65,377)</u>	<u>\$ (55,865)</u>
FUND BALANCE				
Beginning of year			<u>379,511</u>	
End of year			<u>\$ 314,134</u>	

Notes on Exhibit A-9 and B-1 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2004

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 accrual basis, covers the general fund and enterprise 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, 2004.

Expenditures Exceeding Appropriations

For the year ended June 30, 2004, the General Fund had an excess of expenditures over appropriations in public safety, highway and streets, and culture and recreation of approximately \$174,000.

SPECIAL INDEPENDENT AUDITORS' REPORT

For the year ended June 30, 2004



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

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

We have audited the financial statements, as listed in the table of contents, of the **TOWN OF SORRENTO, LOUISIANA**, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **TOWN OF SORRENTO, LOUISIANA**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-2, 2004-5, 2004-7, 2004-8 and 2004-9.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **TOWN OF SORRENTO, LOUISIANA**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-3, 2004-4, and 2004-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described in the schedule of findings and questioned costs involving internal control over financial reporting are also considered to be material weaknesses as defined above. Additionally, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town in a separate letter dated December 7, 2004.

This report is intended solely for the information and use of management, the Town Council, federal awarding agencies and pass-through entities and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
December 7, 2004

TOWN OF SORRENTO, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

1) Summary of Auditors' Results:

- A) The type of report issued on the financial statements: **Unqualified opinion.**
- B) Reportable conditions in internal control were disclosed by the audit of financial statements: **2004-1, 2004-3, 2004-4 and 2004-6.**
Material weaknesses: **See reportable conditions above.**
- C) Noncompliance that is material to the financial statements: **None.**
- D) Findings relating to the financial statements reported in accordance with *Government Auditing Standards*: **2004-1, 2004-2, 2004-5, 2004-7, 2004-8 and 2004-9.**

2) Findings – Financial Statement Audit

2004-1 Asset Management/Daily Cash Deposits

Observation: During 2004, the Town confiscated cash and vehicles during drug related arrests. These items have been maintained at the Police Department. Approximately \$5,000 in cash has not been deposited in the Town's bank account. Such cash is being maintained by the Town's Police Chief.

Additionally, during our review of cash management procedures of the Town for the year ended June 30, 2004 and 2003, we discovered that the Town does not consistently deposit cash on a daily basis. Town personnel contended that it is not practical to deposit cash on a daily basis and such funds are secured overnight in the Town's safe.

Recommendation: We recommend that the Town deposit cash on a daily basis to alleviate the risk of misappropriation of the Town's funds and to maintain an adequate accounting of its cash position.

Additionally, we recommend that the Town develop a policy for the administration of assets confiscated by its Police Department relating to drug related arrests, including expenditure of such resources. The policy should be reviewed with the Town's legal counsel.

Management's corrective action plan: The Chief of Police has requested that confiscated funds be deposited in a separate bank account and utilized in furthering drug related law enforcement activities. However, the Town is considering the appropriate management of these resources and will review the matter with its legal counsel.

Further, management believes that the daily deposit of cash is impractical. The Town's policy is to deliver large deposits on a daily basis. Smaller deposits of \$100 or less are not delivered daily and are adequately secured each evening. As a result, the Town believes that this practice is adequate for its needs.

2004-2 Senior Citizen Program Expenditures

Observation: The Town receives a dedicated sales and use tax to conduct senior citizen programs. Based on our review of the expenditures made during 2004 and 2003, we found the following:

- The Town has established a policy for its sewer users over the age of 65 to be provided with six months of free garbage services during a fiscal year. The billings sent by the Town's utility fund for these individuals are paid from dedicated sales and use tax proceeds. The total expense related to this service during 2004 and 2003 was approximately \$14,500 and \$12,200, respectively.
- The Town provides an annual Christmas party for its senior citizens participating in the program. The total expense related to this activity during 2004 and 2003 was approximately \$1,400 and \$2,400, respectively.

The Town obtained an Attorney General's opinion regarding the expenditure of these dedicated tax receipts during 2003. The opinion stated that the program expenditures listed above benefited the Town's senior citizens and is within the dedicated purpose of the tax. However, additional clarification was suggested to be obtained from the Attorney General's office related to this matter. As of the end of 2004 the additional clarification had not been obtained.

Recommendation: We recommend the Town review this matter with its legal counsel for appropriate resolution.

Management's corrective action plan: The Town is satisfied with the original opinion provided by the Attorney General's office. As a result, the Town is not seeking additional legal guidance and considers the matter resolved.

2004-3 Segregation of Duties

Observation: There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small size of the Town. These limitations allow no opportunity for meaningful segregation of duties.

Recommendation: We recommend that the Mayor review and approve the following:

- Check disbursements and related supporting documentation,
- Monthly bank statement (including the cancelled checks) and related reconciliation.

Additionally, the Mayor and Town Council should review and approve the monthly bills including vendor invoices and, on a monthly basis, detailed financial statements.

Management's corrective action plan: Due to the size of the Town, the achievement of adequate segregation of duties is desirable to management but is cost prohibitive. Based on a review of personnel responsibility, the Town would need an additional employee in finance to achieve adequate segregation of duties.

Additionally, the Mayor approves all disbursements of the Town. Secondly, the Mayor and Town Council approve outstanding accounts payable during its regularly scheduled meetings. Finally, the Town has expanded the itemization of expenses reflected on its monthly financial statements for detailed review. Based on these actions taken, the Town believes that it has enhanced its internal control over financial reporting.

2004-4 Traffic Fine Collections

Observation: The Town collects significant funds relating to traffic fines. The Police Department administers collection of these funds, to include tracking outstanding balances. The Police Department uses a database to account for traffic fine activity. During 2004 and 2003, the Town's police department did not utilize the software package effectively. As a result, the data provided relating to current year activity was unreliable. Fines and court cost collections for 2004 were approximately \$177,000, which represents a significant revenue stream to the Town.

Additionally, the Town was determining court cost payments based on amounts collected, but was not preparing itemized documentation that related to the individual violators to confirm the amounts owed.

The Town is not effectively collecting outstanding unpaid balances for traffic fines issued. Currently, a warrant is issued for the arrest of the offenders that have not paid judgments submitted to the Town. However, no further action is taken by the Town to collect these outstanding amounts due.

Recommendation: We recommend that the Town determine an accurate amount of outstanding fines due and appropriately update the current system in place. Controls must be established that ensure this data remains current and accurate. Additionally, the Town should notify the Louisiana Department of Motor Vehicles for individuals that have not paid fines and related court costs after issuance of a bench warrant. Additionally, the Town should consider involving its legal counsel to enhance collection efforts. These practices may result in a higher probability of collecting these revenues.

Finally, subsequent to year end, the Town expanded its payment records for court costs to itemize individual violators court fees.

Management's corrective action plan: The Town will review this matter with its Chief of Police for further action. Additionally, the Chief of Police has indicated that the Town may consider involving the District Attorney to enhance cash collection efforts associated with these activities. In any event, the Police Department will make a better effort to submit these traffic offenders to the Louisiana Department of Motor Vehicles.

2004-5 Financial Reporting/Budgeting

Observation: During 2004, we have the following observations relating to the Town's budgetary practices:

- The Town did not include in its adopted budget the certain expenditures, as follows:
 - The Town did not budget expenditures of restricted funds held. In particular, the Town purchased property to be utilized for recreational purposes of approximately \$89,000. In total, recreational expenditures approximated \$107,000 with no corresponding appropriation.
 - The Town's Police Department exceeded the expenditure appropriation by approximately \$36,000. This excess was primarily the result of a capital lease purchase of a vehicle.
 - The Town's expenditures for fire protection exceeded the budget appropriation by approximately \$21,000.
- The Town prepares its operating expenditure budget on a department budget basis with limited itemization of expenditures.
- The operating budget should include a detailed budget message.
- The Town's budget is not itemized as to the same level of detail as its monthly financial statements.

Louisiana law requires the operating budget of expenditures be amended when actual expenditures exceed the adopted appropriation by 5% or more. The Town did not comply with the Louisiana budget law during 2004.

Recommendation: To comply with state law and effectively manage the Town's operations, an itemized operating budget of all expenditures should be prepared and adopted for the year ended June 30, 2005.

Additionally, the Town should adopt a budget with increased detail that could be compared on an account level. The itemization would provide management of the Town with a more effective means to monitor its costs. The operating budget should be adopted for all governmental fund revenues and expenditures.

Management's corrective action plan: The Town intends on revising its 2005 operating budget to include an itemization of major expenditures by department and functional category, including restricted fund revenues and expenditures. Additionally, the Town intends on preparing its monthly financial statements to include comparison of actual expenses to the itemization adopted in the operating budget for general and restricted expenditures.

2004-6 Use of Technology

Observation: The Town maintains records to support account balances in the financial statements through various ledger cards and other manual records. These types of manual records were maintained on the following accounts:

- Bail bond liabilities,
- Restricted cash activity,
- Customer deposit activity,
- Fixed assets.

The use of manual records to support financial statement activity is an inefficient and ineffective means to compile the data necessary to protect the integrity of the Town's financial statements. Additionally, the financial statements did not reflect the amounts management indicated and adjustments were made.

As stated in item 2004-4, the Police Department's software program for traffic fine accounting is not effectively utilized. Additionally, the program is not windows based software and its age is unknown. To the knowledge of management of the Police Department, the program does not have current software support as well.

Recommendation: The Town should consider the following:

- Prohibit the use of manual, written records to support financial statement activity of the Town,
- Provide training for staff in the use of technology to enhance the effectiveness of information processed by Town personnel,
- Review current software being utilized by the Town to determine the effectiveness.

Management's corrective action plan: Management agrees with the recommendation and intends to review this matter internally to develop a plan for implementation of the recommendation. Additionally, management intends to provide personnel with more software training to improve staff effectiveness.

2004-7 Public Bid Law

Observation: The Town did not advertise for bids relating to certain expenditures during 2004. The Town purchased a used vehicle during 2004 for which no bids were obtained.

Recommendation: The Town should adhere to the State of Louisiana's public bid law for qualifying expenditures.

Management's corrective action plan: Management intends to adhere to the public bid law for expenditures made in the future. Management also considers this matter to be an isolated incident.

2004-8 Use of Restricted Proceeds

Observation: During 2004, the Town purchased land with recreational funds received from its restricted sales and use tax. However, the Town is utilizing a small portion of the land to construct the water tank for the water distribution system.

Recommendation: The Town should reimburse the recreational account for a pro-rated share of the land purchase based on the land utilized by the Utility fund. The approximate reimbursement is \$3,000.

Management's corrective action plan: Management intends to review this matter with its legal counsel for its ultimate resolution.

2004-9 Advance of Funds

Observation: During 2004, the Town advanced funds to a police employee with approximately \$175 owed at year end.

Recommendation: Advancement of public funds to employees is prohibited by Louisiana law. Such activities should be prohibited.

Management's corrective action plan: Management intends to prohibit such activities in the future. Additionally, the funds have been recouped from the employee from payroll withholdings subsequent to year end.

TOWN OF SORRENTO, LOUISIANA

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

2003-1 Asset Management

This finding has been reclassified as 2004-1.

2003-2 Senior Citizen Program Expenditures

This finding has been reclassified as 2004-2.

2003-3 Segregation of Duties

This finding has been reclassified as 2004-3.

2003-4 Traffic Fine Collections

This finding has been reclassified as 2004-4.

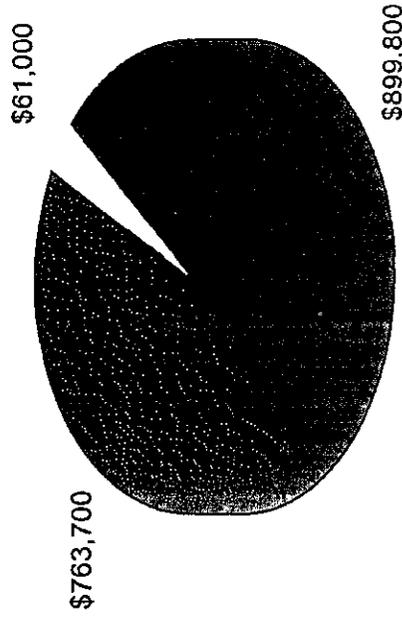
TOWN OF SORRENTO, LOUISIANA

STATISTICAL SECTION

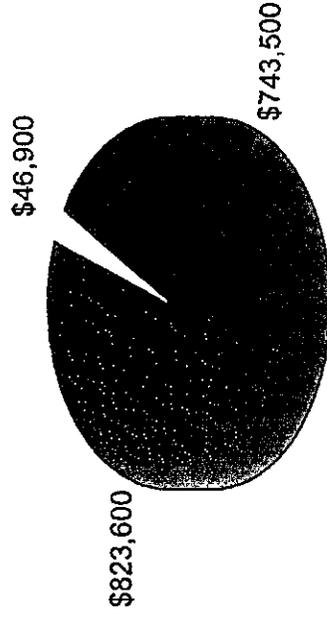
The accompanying pages are for use in comparing the results of 2004 operations and amounts to those of prior years. The significance of the information is the long-term trends associated with the statistics.

TOWN OF SORRENTO, LOUISIANA

TOTAL ASSETS



JUNE 30, 2004



JUNE 30, 2003

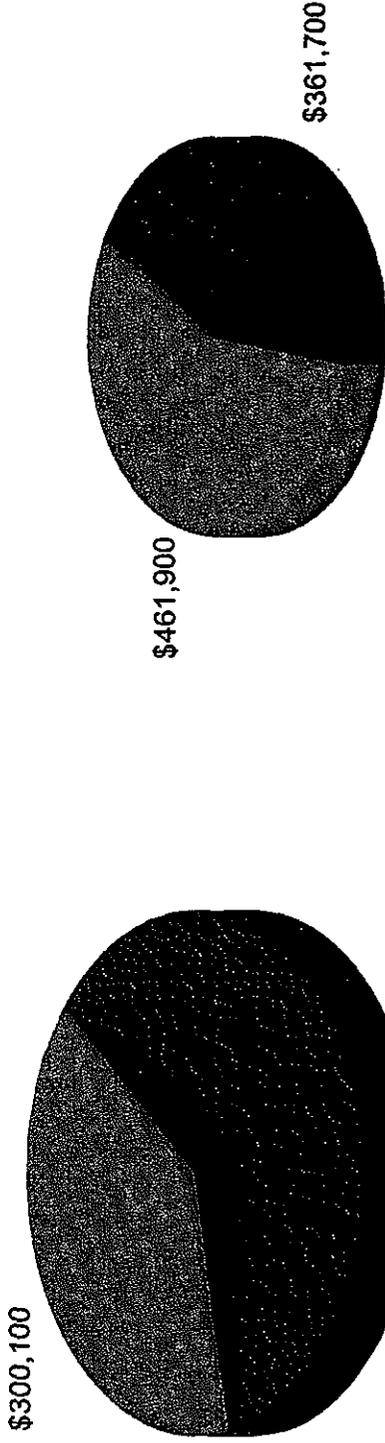
■ FIXED ASSETS	■ CASH & INVESTMENTS	■ OTHER
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TOTAL ASSETS = \$ 1,724,500

TOTAL ASSETS = \$ 1,614,000

TOWN OF SORRENTO, LOUISIANA

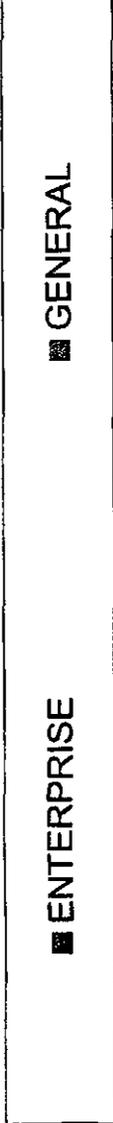
CASH AND INVESTMENTS



\$463,600

JUNE 30, 2004

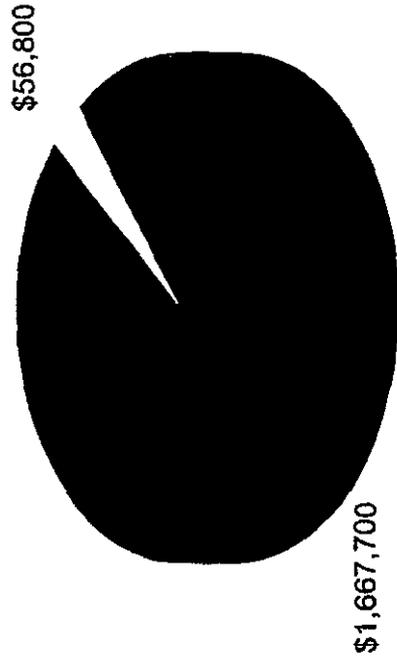
JUNE 30, 2003



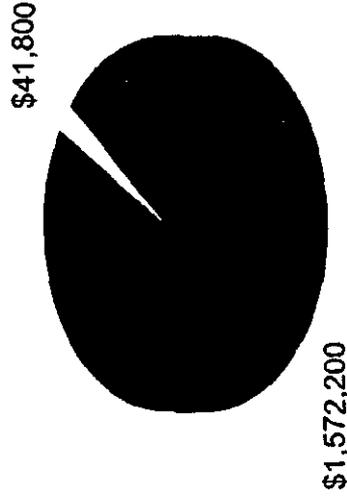
TOTAL CASH & INVESTMENTS = \$ 763,700 TOTAL CASH & INVESTMENTS = \$ 823,600

TOWN OF SORRENTO, LOUISIANA

LIABILITIES AND FUND EQUITY



JUNE 30, 2004



JUNE 30, 2003

CURRENT LIABILITIES	■ FUND EQUITY
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TOTAL LIABILITIES = \$ 56,800	TOTAL LIABILITIES = \$ 41,800
TOTAL FUND EQUITY = \$ 1,667,700	TOTAL FUND EQUITY = \$ 1,572,200

TOWN OF SORRENTO, LOUISIANA

FUND EQUITY



JUNE 30, 2004



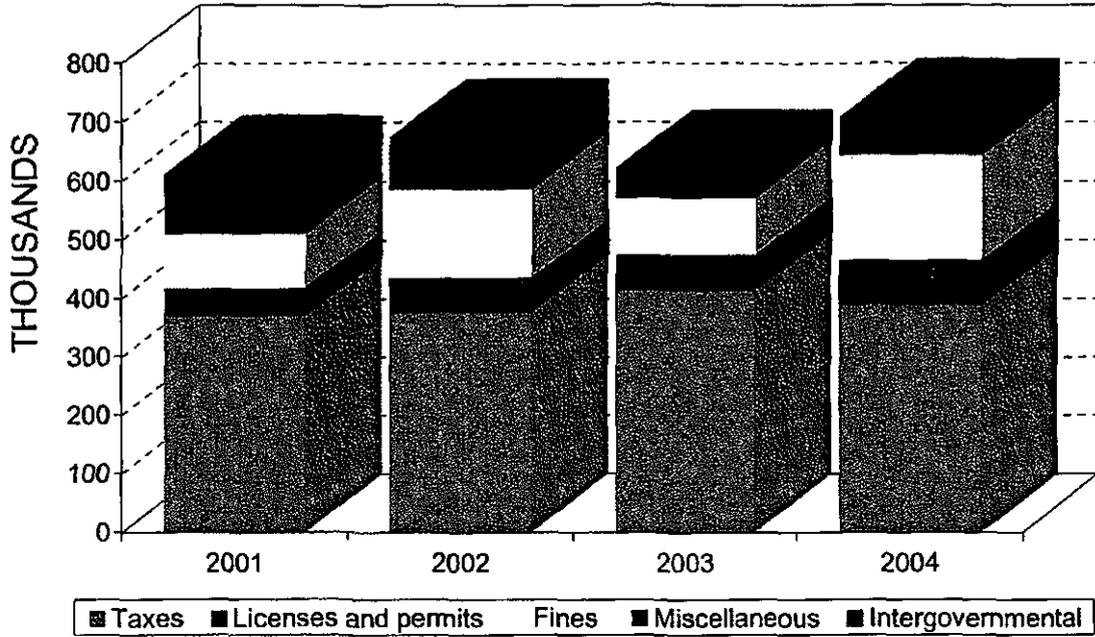
JUNE 30, 2003

BUSINESS
 GOVERNMENTAL

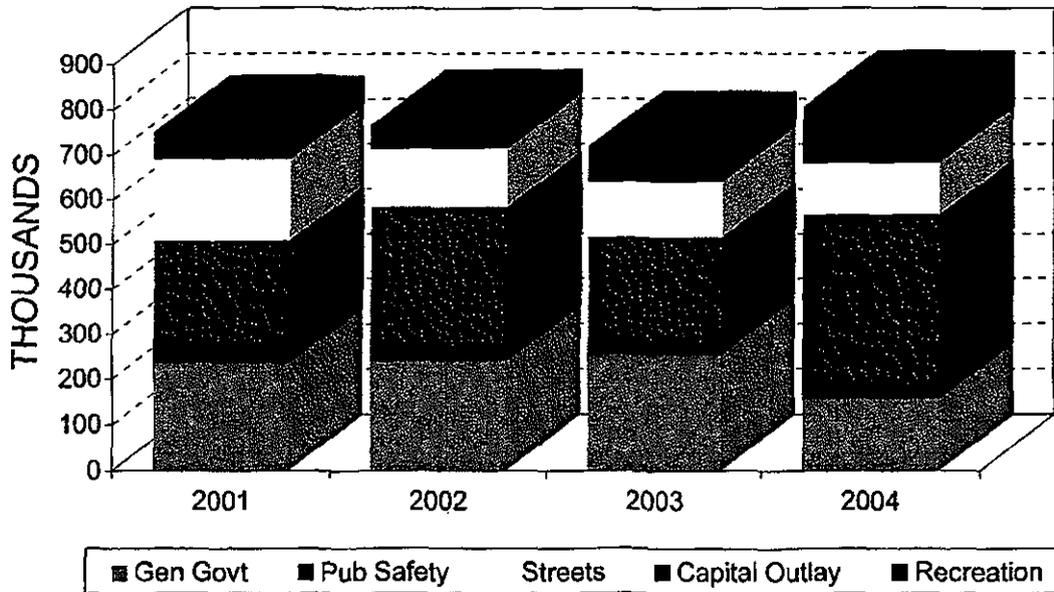
TOTAL FUND EQUITY = \$ 1,667,700

TOTAL FUND EQUITY = \$ 1,572,200

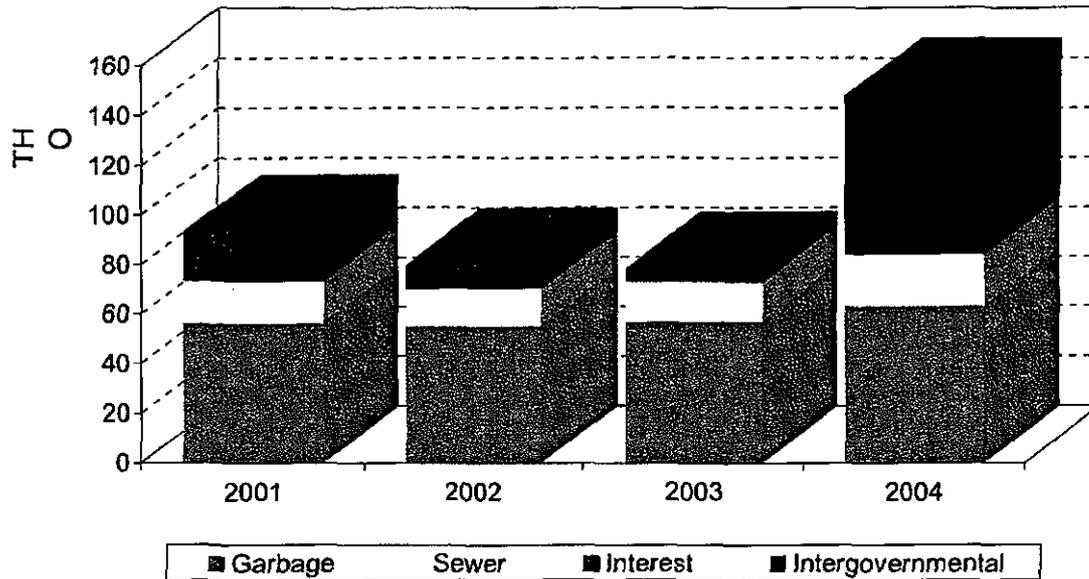
GENERAL FUND REVENUES TOWN OF SORRENTO, LOUISIANA



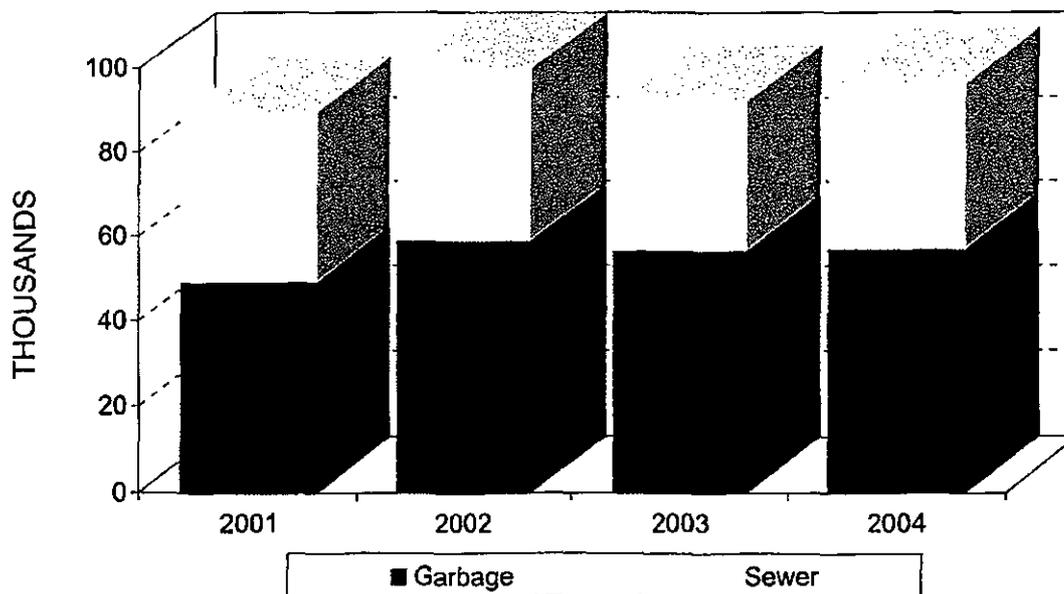
GENERAL FUND EXPENDITURES TOWN OF SORRENTO, LOUISIANA



UTILITY FUND REVENUES (GARBAGE & SEWER) TOWN OF SORRENTO, LOUISIANA



UTILITY FUND EXPENSES (GARBAGE & SEWER) TOWN OF SORRENTO, LOUISIANA



UTILITY FUND OPERATING REVENUE & EXPENSES
(GARBAGE & SEWER)
TOWN OF SORRENTO, LOUISIANA

