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City of Tallulah
Tallulah, Louisiana

Annual Financial Report
As of and for the Year Ended June 30, 2005

CITY OF TALLULAH
Tallulah, Louisiana

Annual Financial Report

As of and for the Year Ended June 30, 2005

Honorable Theodore Lindsey
Mayor

Gerald Odom
City Clerk

City of Tallulah
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INDEPENDENT AUDITORS' REPORT

Honorable Theodore Lindsay,
and Members of the City Council
City of Tallulah
Tallulah, Louisiana

We have audited the accompanying *financial statements* of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tallulah as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The financial statements referred to above include only the primary government of the City which consist of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule as listed in the table of contents, are not a required part of the *basic financial statements* but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the *financial statements* that collectively comprise the City's basic financial statements. The accompanying supplemental information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the *basic financial statements*. Such information has been subjected to the auditing procedures applied in the audit of the *basic financial statements* and, in our opinion, is fairly stated in all material respects in relation to the *basic financial statements* taken as a whole. The accompanying other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Allen, Green & Williamson, LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
December 28, 2005

REQUIRED SUPPLEMENTAL INFORMATION:

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

City of Tallulah
Management's Discussion and Analysis (MD&A)

Our discussion and analysis of the City of Tallulah's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A

FINANCIAL HIGHLIGHTS Our financial statements provide these insights into the results of this year's operations:

Total governmental activities revenues received for June 30, 2005 was $2,998,773, this is an increase of $430,227 or 17% change from the year ended June 30, 2004. This was due mainly to a federal grant from LCDBG of $459,180 for street improvements.

Governmental activities expenses for 2005 was $2,387,346, this is a decrease of $429,197. Expenses decreased from 2004 to 2005 mainly due to cost-cutting efforts in all departments. General and administrative expense was $165,048 less in 2005, street department expenses were $52,075 less in 2005, Culture and recreation expenses were $86,743 less in 2005, and interest expense was $36,730 less in 2005.

Total revenues received through business activities for June 30, 2005 was $2,595,434, this is an increase of $453,522, or 21% between 2004 to 2005. Revenues decreased mainly because of an increase in sewer rates during the last quarter of 2005. Also, the City received funds from the USDA for rehabilitation of the sewer system.

Business activities expenses for 2005 were $2,921,871, which is an increase of $264,434 or 10% between 2004 and 2005. Expenses increased due mainly to an increase in repairs for the sewer system and interest expense on long-term debt.

For the year ended June 30, 2005, the General Fund reported $1,853,841 in revenues, a decrease of $422,019 or 19% from revenue received for the year ended June 30, 2004. This decrease is mainly due to ad valorem taxes for the 1998 Public Improvement Bonds were reported in the General Fund in prior years, but in 2005 are reported in the 1998 Public Improvement Bonds fund in the amount of $308,823.

Expenditures decreased $350,510 from the year ended June 30, 2005 to June 30, 2004. In 2005, the City reported $2,032,398 in expenditures for the General Fund and $2,382,908 in expenditures for 2004. This change represents a 15% decrease from 2005 to 2004. This was mainly due to a decrease in expenditures was mainly due to a cost-cutting effort of the City in general and administrative expenses of $165,048, Culture and recreation expenses of $86,743 and capital outlay of $34,741.

USING THIS ANNUAL REPORT

The City's annual report consists of a series of financial statements that show information for the City as a whole, and its funds. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For our governmental activities, the fund financial statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also may give you some insights into the City's overall financial health. Fund financial statements also report the City's operations in more detail than the governmental-wide financial statements by providing information about the City's most significant funds - the General Fund.

The following chart reflects the information included in this annual report.

Financial Section

Required Supplemental Information
Management's Discussion & Analysis (MD&A)

Basic Financial Statements

Government-wide Financial Statements ↔ **Fund Financial Statements**

Notes to the Basic Financial Statements

Required Supplemental Information
Budgetary Comparison Information

Supplemental Information
Combining Nonmajor Funds
Comparative Information Required by Bond Covenant
Schedule of Compensation Paid Council Members

Single Audit Information

Other Information
Summary Schedule of Prior Audit Findings
Corrective Action Plan for Auditor's Current-Year Findings
Management Letter

Our auditor has provided assurance in the independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplemental Information, the Supplemental Information and Other Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts of this report.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins with the government-wide financial statements. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information about the City as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken `into account regardless of when cash is received or paid.

These two statements report the City's *net assets* - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the City's financial health, or *financial position.* Over time, *increases or decreases* in the City's net assets as reported in the Statement of Activities are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses is the City's *operating results.* However, the City's goal is to provide services to our citizens, not to generate profits as commercial entities do. One must consider other non-financial factors, such as the quality of police and fire protection, the conditions of the City's roads, and the quality of water, sewer and sanitation systems to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental Activities - Most of the City's basic services are reported here, including the police, fire, street and general administration. Property taxes, franchise fees, licenses and fees, fines and forfeitures, and state and federal grants finance most of these activities.

Business-type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and sanitation systems are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The City's fund financial statements provide detailed information about the most significant funds but not the City as a whole. Some funds are required to be established by State law. However, the City establishes other funds to help it control and manage money for particular purposes (like the capital project fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches:

Governmental funds - Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They 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 City's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations (Statements D and F).

Proprietary funds - When the City charges customers for the services it provides, 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 City's utility enterprise fund (a component of proprietary funds) are the same as business-type activities we report in the government-wide financial statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets
June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	$ 1,339,974	$ 1,617,513	$ 650,884	$ 743,706	$ 1,990,858	$ 2,361,219
Restricted assets	0	0	842,029	899,973	842,029	899,973
Capital assets	1,218,912	796,862	15,482,402	15,398,773	16,701,314	16,195,635
Total assets	2,558,886	2,414,375	16,975,315	17,042,452	19,534,201	19,456,827
Current and other liabilities	198,822	233,568	185,655	146,542	384,477	380,110
Long-term liabilities	2,067,220	2,499,590	8,561,997	8,341,810	10,629,217	10,841,400
	2,266,042	2,733,158	8,747,652	8,488,352	11,013,694	11,221,510
Net assets						
Invested in capital assets, net of debt	83,480	(571,018)	7,748,158	8,198,810	7,831,638	7,627,792
Restricted			842,029	899,973	842,029	899,973
Unrestricted	209,364	252,235	(362,524)	(544,683)	(153,160)	(292,448)
Total net assets	$ 292,844	$ (318,783)	$ 8,227,663	$ 8,554,100	$ 8,520,507	$ 8,235,317

Net assets of the City's governmental activities for June 30, 2005 were $292,844. Unrestricted net assets that are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was $209,364.

The net assets of our business-type activities for June 30, 2005 were $8,227,663.

Table 2
Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	$ 167,662	$ 137,113	$2,236,883	$2,128,757	$2,404,545	$2,265,870
Operating grants and contributions	192,961	240,042	0	0	192,961	240,042
Capital grants and contributions	459,180	0	334,486	0	793,666	0
General revenues						
Property taxes	586,426	754,366	0	0	586,426	754,366
Sales tax	994,277	1,011,524	0	0	994,277	1,011,524
Other taxes, penalties	10,783	11,461	0	0	10,783	11,461
License and permits	148,115	170,384	0	0	148,115	170,384
Earnings on investments	16,487	7,126	24,065	13,155	40,552	20,281
Miscellaneous	422,882	236,530	0	0	422,882	236,530
Total Revenues	2,998,773	2,568,546	2,595,434	2,141,912	5,594,207	4,710,458
Functions/Program Expenses:						
Governmental Activities						
General and administrative	506,626	671,674	0	0	506,626	671,674
Police Department	539,286	533,992	0	0	539,286	533,992
Fire Department	372,705	451,445	0	0	372,705	451,445
Street Department	569,893	621,968	0	0	569,893	621,968
Health & Welfare	141,086	158,705	0	0	141,086	158,705
Culture and recreation	56,450	143,193	0	0	56,450	143,193
Legislative	51,454	46,624	0	0	51,454	46,624
Transportation	20,284	22,650	0	0	20,284	22,650
Interest expense	129,562	166,292	0	0	129,562	166,292
Business-type Activities						
Water Enterprise	0	0	2,049,266	1,775,281	2,049,266	1,775,281
Utility Enterprise	0	0	872,605	882,157	872,605	882,157
Total Functions/Program Expenses	2,387,346	2,816,543	2,921,871	2,657,438	5,309,217	5,473,981
Increase (decrease) in net assets before transfers	611,427	(247,997)	(326,437)	(515,526)	284,990	(763,523)
Transfers	0	46,963	0	(46,963)	0	0
Increase (decrease) in net assets	611,427	(201,034)	(326,437)	(562,489)	284,990	(763,523)
Net assets – beginning	(318,583)	(117,749)	8,554,100	9,116,589	8,235,517	8,998,840
Net assets, ending	$ 292,844	$ (318,783)	$8,227,663	$8,554,100	$8,520,507	$8,235,317

Governmental Activities

The cost of all governmental activities this year was $2,387,346. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $1,739,601 because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

Table 3 presents the cost of each of the City's governmental activities as well as each programs net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3
Governmental Activities
For the Years Ended June 30, 2005 and 2004

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Governmental Activities				
General and administrative	$ 506,626	$ 671,674	$ 477,460	$ 642,193
Police Department	539,286	533,992	394,125	398,408
Fire Department	372,705	451,445	372,705	395,213
Street Department	569,893	621,968	110,713	621,968
Health and welfare	141,086	158,705	(18,465)	72,326
Culture and recreation	56,450	143,193	29,705	73,714
Legislative	51,454	46,624	51,454	46,624
Transportation	20,284	22,650	20,284	22,650
Interest expense	129,562	166,292	129,562	166,292
Total Functions/Program Expenses	$2,387,346	$2,816,543	$1,567,543	$2,439,388

Business-type Activities

Revenue of the City's business-type activities (see Table 2) for June 30, 2005 was $2,595,434.

As stated previously, revenues of the City's business-type activities for June 30, 2005 was $2,595,434, this is an increase of $453,522 from 2004 to 2005. Expenses for the year ended June 30, 2005 were $2,921,871 for the City's business-type activities which increased $264,433 from 2004 to 2005.

Business-type activities had a decrease in net assets of $326,437 from 2004 to 2005.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $1,141,152, which is a decrease of $242,993 in fund balance from last year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were $41,671 less than budgeted revenues. This unfavorable variance was due to budgeted interfund transfers and a decrease in actual sales tax revenue from budgeted amount.

Overall actual expenditures were $179,737 less than budgeted expenditures. The Police Department exceeded its budget amounts $6,213, this unfavorable variance was due to increased pension costs and gas prices.

The Fire Department exceeded its budget amounts $28,831, this unfavorable variance was due to increases in pension costs, gas prices and vehicle repairs.

CAPITAL ASSETS

Capital Assets

At June 30, 2005 and 2004, the City had invested in the following capital assets:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 78,500	$ 78,500	$ 678,330	$ 678,330	$ 756,830	$ 756,830
Construction in progress			692,860		692,860	
Infrastructure	511,285	0	0	0	511,285	0
Buildings improvements	2,344,940	2,344,940	0	0	2,344,940	2,344,940
Furniture and equipment	1,172,090	1,118,773	964,435	898,278	2,136,525	2,017,051
Assets under capital lease	21,347	139,391	0	0	21,347	139,391
Plant	0	0	9,900,494	9,900,494	9,900,494	9,900,494
Transmission lines	0	0	2,529,994	2,529,994	2,529,994	2,529,994
Water systems	0	0	5,427,566	5,427,566	5,427,566	5,427,566
Pumping stations	0	0	337,944	337,944	337,944	337,944
Total capital assets	4,128,162	3,681,604	20,531,623	19,772,606	24,659,785	23,454,210
Accumulated depreciation	2,909,250	2,884,742	5,049,221	4,373,833	7,958,471	7,258,575
Net depreciable assets	$1,218,912	$ 796,862	$15,482,402	$15,398,773	$16,701,314	$16,195,635

Construction in progress was transferred out of the governmental activities into the business-type activities because the ongoing construction project is actually to improve the water and sewer systems of the City. Additional information regarding capital assets can be found in Note 7 of the Notes to the Basic Financial Statements.

DEBT ADMINISTRATION At June 30, 2005, the City had bonds outstanding of $1,813,094 in which Governmental Funds make the require payments. Governmental Funds also make payments for capital leases, balance of $14,058, and other debt which comprises $140,182 for the Municipal Police Retirement System Merger and $99,886 which represents the balance of a bank loan. Enterprise Funds had outstanding bonds of $8,151,894 at June 30, 2005. Proceeds of these bonds were used for the rehabilitation of the City's Water System. Also, the Enterprise Funds have a bank loan of $350,000 and capital leases of $60,103. Additional information regarding long-term debt can be found in Note 10 of the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS Our elected and appointed officials and citizens consider many factors when setting the City's budget and tax rates. One of the most important factors affecting the budget is our franchise and ad valorem tax collections. Approximately, 20% of total revenues in the general fund is franchise and ad valorem tax. We have budgeted very little change in franchise and ad valorem tax revenues for the year ending June 30, 2005.

ADDITIONAL INFORMATION For additional information contact Gerald Odom, City Clerk, City of Tallulah, 204 North Cedar Street, Tallulah, LA 71282 or by telephone at (318) 574-0964.

BASIC FINANCIAL STATEMENTS:

GOVERNMENT-WIDE
FINANCIAL STATEMENTS (GWFS)

CITY OF TALLULAH

STATEMENT OF NET ASSETS
June 30, 2005

Statement A

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 604,373	$ 118,284	$ 722,657
Investments	525,234	0	525,234
Receivables (net)	262,647	242,675	505,322
Internal balances	(59,396)	59,396	0
Prepaid expenses	7,116	9,011	16,127
Restricted assets			
Cash and cash equivalents	0	4,475	4,475
Investments	0	837,554	837,554
Capital assets, net	1,218,912	15,482,402	16,701,314
Deferred bond issuance costs (net of amortization)	0	221,518	221,518
TOTAL ASSETS	2,558,886	16,975,315	19,534,201
LIABILITIES			
Accounts, salaries and other payables	198,822	101,690	300,512
Deferred revenue	0	22,613	22,613
Payable from restricted assets - deposits	0	61,352	61,352
Long term liabilities			
Due within one year	431,965	548,007	979,972
Due in more than one year	1,635,255	8,013,990	9,649,245
TOTAL LIABILITIES	2,266,042	8,747,652	11,013,694
NET ASSETS			
Invested in capital assets, net of related debt	83,480	7,748,158	7,831,638
Restricted	0	842,029	842,029
Unrestricted	209,364	(362,524)	(153,160)
TOTAL NET ASSETS	$ 292,844	$ 8,227,663	$ 8,520,507

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF TALLULAH

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS				
Governmental Activities:				
General and administrative	$ 506,626	$ 29,166		$ 0
Police Department	539,286	138,496	6,665	
Fire Department	372,705		0	
Street Department	569,893		0	459,180
Health and welfare	141,086		159,551	
Culture and recreation	56,450		26,745	
Lesgistative	51,454			
Transportation	20,284			
Interest expense	129,562			
Total Governmental Activities	2,387,346	167,662	192,961	459,180
Business-Type Activitites:				
Water activities	2,049,266	1,626,724	0	334,486
Sewer activities	872,605	610,159	0	0
Total Business-Type Activities	2,921,871	2,236,883	0	334,486
Total	$ 5,309,217	$ 2,404,545	$ 192,961	$ 793,666

General revenues:

Taxes:

Property taxes, levied for utility enterprise

Sales tax revenue

Other taxes, penalties

Licenses and permits

Earnings on investments

Miscellaneous

Total general revenues and transfers

Changes in net assets

Net assets - beginning

Net assets - ending

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Statement B

PRIMARY GOVERNMENT		
NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
Governmental *Activities*	*Business-Type Activities*	TOTAL
$ (477,460)	$ 0	$ (477,460)
(394,125)		(394,125)
(372,705)		(372,705)
(110,713)		(110,713)
18,465		18,465
(29,705)		(29,705)
(51,454)		(51,454)
(20,284)		(20,284)
(129,562)		(129,562)
(1,567,543)	0	(1,567,543)
	(88,056)	(88,056)
	(262,446)	(262,446)
0	(350,502)	(350,502)
(1,567,543)	(350,502)	(1,918,045)
586,426		586,426
994,277		994,277
10,783		10,783
148,115		148,115
16,487	24,065	40,552
422,882		422,882
2,178,970	24,065	2,203,035
611,427	(326,437)	284,990
(318,583)	8,554,100	8,235,517
$ 292,844	$ 8,227,663	$ 8,520,507

City of Tallulah

BASIC FINANCIAL STATEMENTS:

FUND FINANCIAL STATEMENTS (FFS)

CITY OF TALLULAH

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2005

	GENERAL	LCDBG	1998 GENERAL OBLIGATION BONDS
ASSETS			
Cash and cash equivalents	$ 263,270	$ 30	$ 168,294
Investments	0	0	0
Receivables	216,729	45,918	0
Interfund receivables	167,407	0	13,951
Prepaid expenses	7,116	0	0
TOTAL ASSETS	654,522	45,948	182,245
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts, salaries and other payables	149,575	45,918	0
Interfund payables	273,286	293	0
TOTAL LIABILITIES	422,861	46,211	0
FUND BALANCES:			
Reserved for debt service	0	0	182,245
Unreserved and undesignated	231,661	(263)	0
TOTAL FUND BALANCES	231,661	(263)	182,245
TOTAL LIABILITIES AND FUND BALANCES	$ 654,522	$ 45,948	$ 182,245

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Statement C

1998 PUBLIC IMPROVEMENT BONDS	OTHER GOVERNMENTAL	TOTAL
$ 0	$ 172,779	$ 604,373
525,234	0	525,234
0	0	262,647
0	35,230	216,588
0	0	7,116
525,234	208,009	1,615,958
0	3,329	198,822
0	2,405	275,984
0	5,734	474,806
525,234	42,469	749,948
0	159,806	391,204
525,234	202,275	1,141,152
$ 525,234	$ 208,009	$ 1,615,958

City of Tallulah

CITY OF TALLULAH

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2005

Statement D

Total fund balances - governmental funds		$ 1,141,152
The cost of capital assets (land, buildings, furniture and equipment and infrastructure) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the Town as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governmental funds.		
Costs of capital assets	4,128,162	
Depreciation expense to date	(2,909,250)	
		1,218,912
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long term - are reported in the Statement of Net Assets.		
Balances at June 30, 2005 are:		
Bonds payable	(1,813,094)	
Leases payable	(14,058)	
Other long-term debt	(240,068)	
		(2,067,220)
Net Assets - Governmental Activities		$ 292,844

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF TALLULAH

GOVERNMENTAL FUNDS
Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2005

	GENERAL	LCDBG	1998 GENERAL OBLIGATION BONDS
REVENUES			
Local sources:			
Taxes			
Ad valorem	$ 437,077	$ 0	$ 27,267
Sales	685,454	0	0
Other taxes, penalties and interest	10,783	0	0
Licenses and permits	148,115	0	0
Intergovernmental revenues	195,808	459,180	0
Rental income	7,280	0	0
Local funds	0	52,095	0
Fees, charges, and commission for services	6,392	0	0
Use of money and property	2,951	0	836
Fines and forfeitures	130,537	0	0
Miscellaneous revenues	229,444	0	0
Total revenues	1,853,841	511,275	28,103
EXPENDITURES			
Current:			
General and administrative	501,556	0	0
Police Department	518,273	0	0
Fire Department	337,721	0	0
Street Department	400,623	0	0
Health and welfare	0	0	0
Culture and recreation	49,084	0	0
Legislative	51,454	0	0
Transportation	20,284	0	0
Other	0	0	0
Capital outlay	10,597	511,285	0
Debt service:			
Principal retirement	110,961	0	65,000
Interest and bank charges	31,845	0	21,019
Total expenditures	2,032,398	511,285	86,019
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	$ (178,557)	$ (10)	$ (57,916)

1998 PUBLIC IMPROVEMENT BONDS	OTHER GOVERNMENTAL	Statement E TOTAL
$ 0	$ 122,082	$ 586,426
308,823	0	994,277
0	0	10,783
0	0	148,115
0	159,551	814,539
0	0	7,280
0	0	52,095
0	0	6,392
9,562	3,138	16,487
0	0	130,537
0	2,398	231,842
318,385	287,169	2,998,773
531	0	502,087
0	0	518,273
0	0	337,721
0	126,670	527,293
0	141,086	141,086
0	0	49,084
0	0	51,454
0	0	20,284
0	0	0
0	10,670	532,552
250,000	6,409	432,370
67,692	9,006	129,562
318,223	293,841	3,241,766
$ 162	$ (6,672)	$ (242,993)

(Continued)

CITY OF TALLULAH

GOVERNMENTAL FUNDS
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2005

	GENERAL	LCDBG	1998 GENERAL OBLIGATION BONDS
OTHER FINANCING SOURCES (USES)			
Transfers in	$ 100	$ 0	$ 0
Transfers out	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	100	0	0
NET CHANGE IN FUND BALANCES	(178,457)	(10)	(57,916)
FUND BALANCES - BEGINNING	410,118	(253)	240,161
FUND BALANCES - ENDING	$ 231,661	$ (263)	$ 182,245

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Statement E

1998 PUBLIC IMPROVEMENT BONDS	OTHER GOVERNMENTAL	TOTAL
$ 974	$ 0	$ 1,074
0	(1,074)	(1,074)
974	(1,074)	0
1,136	(7,746)	(242,993)
524,098	210,021	1,384,145
$ 525,234	$ 202,275	$ 1,141,152

(Concluded)

CITY OF TALLULAH

Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2005

Statement F

Total net change in fund balances - governmental funds	$	(242,993)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period:		
Capital outlays $ 532,552		
Depreciation (110,502)		422,050
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		432,370
Change in net assets of governmental activities.	$	611,427

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF TALLULAH

PROPRIETARY FUND TYPE - ENTERPRISE FUNDS
Statements of Net Assets
June 30, 2005

Statement G

	WATER FUND	SEWER FUND	TOTAL
ASSETS			
Current Assets:			
Cash	$ 102,344	$ 15,940	$ 118,284
Receivables	143,643	99,032	242,675
Interfund receivables	377,036	9,784	386,820
Prepaid expenses	5,000	4,011	9,011
Restricted Assets:			
Cash	4,475	0	4,475
Investments	837,554	0	837,554
Total Current Assets	1,470,052	128,767	1,598,819
Long-term Assets			
Property, plant and equipment (net of accumulated depreciation)	8,268,021	7,214,381	15,482,402
Deferred bond issuance costs (net of amortization)	221,518	0	221,518
TOTAL ASSETS	9,959,591	7,343,148	17,302,739
LIABILITIES			
Current Liabilities			
Accounts payable	56,887	27,223	84,110
Salaries payable	10,152	7,428	17,580
Interfund payables	21,695	305,729	327,424
Deferred revenue	22,613	0	22,613
Customer deposits	0	61,352	61,352
Current portion of long-term debt	196,132	351,875	548,007
Total Current Liabilities	307,479	753,607	1,061,086
Long-term debt - revenue bonds payable	7,955,762	58,228	8,013,990
TOTAL LIABILITIES	8,263,241	811,835	9,075,076
NET ASSETS			
Invested in capital assets, net of related debt	533,777	7,214,381	7,748,158
Restricted	842,029	0	842,029
Unrestricted	320,544	(683,068)	(362,524)
TOTAL NET ASSETS	$ 1,696,350	$ 6,531,313	$ 8,227,663

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF TALLULAH

PROPRIETARY FUND TYPE - ENTERPRISE FUNDS
Statements of Revenues, Expenses,
and Changes in Fund Net Assets
For the Year Ended June 30, 2005

Statement H

	WATER FUND	SEWER FUND	TOTAL
OPERATING REVENUES			
Charges for services	$ 1,598,456	$ 456,266	$ 2,054,722
Other operating revenue	28,268	153,893	182,161
Total operating revenues	1,626,724	610,159	2,236,883
OPERATING EXPENSES			
Personal services	384,418	206,837	591,255
Supplies	147,374	27,069	174,443
Maintenance	144,981	301,699	446,680
Utilities	105,339	95,889	201,228
Miscellaneous	119,131	44,307	163,438
Uniforms	4,181	4,232	8,413
Insurance	55,184	43,229	98,413
Accounting fees	6,500	0	6,500
Depreciation	526,045	149,343	675,388
Total operating expenses	1,493,153	872,605	2,365,758
OPERATING INCOME (Loss)	133,571	(262,446)	(128,875)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue	334,486	0	334,486
Interest income	22,535	1,530	24,065
Interest expense & Other charges	(535,757)	0	(535,757)
Amortization of bond issue costs	(20,356)	0	(20,356)
Total nonoperating revenues (expenses)	(199,092)	1,530	(197,562)
NET INCOME (Loss)	(65,521)	(260,916)	(326,437)
NET ASSETS - BEGINNING OF YEAR	1,761,871	6,792,229	8,554,100
NET ASSETS - END OF YEAR	$ 1,696,350	$ 6,531,313	$ 8,227,663

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF TALLULAH

PROPRIETARY FUND - UTILITY ENTERPRISE FUND
Statements of Cash Flows
For the Year Ended June 30, 2005

Statement I

	WATER FUND	SEWER FUND	TOTAL
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers	$ 1,541,873	$ 403,069	$ 1,944,942
Payments to employees	(384,418)	(202,207)	(586,625)
Payments to others	(745,550)	(441,881)	(1,187,431)
Other receipts	28,268	153,893	182,161
Net cash provided (used) for operating activities	440,173	(87,126)	353,047
CASH FLOW (USES) FROM NONCAPITAL FINANCING ACTIVITIES:			
Grant receipts	334,486	0	334,486
Increase (decrease) in customer deposits	0	6,535	6,535
Net cash provided (used) for noncapital financing activities	334,486	6,535	341,021
CASH FLOW (USES) FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital loan	0	350,000	350,000
Acquisition of capital assets	(348,336)	(347,668)	(696,004)
Principal payment bonds	(189,917)	(2,909)	(192,826)
Interest paid on bonds	(535,757)	0	(535,757)
Net cash provided (used) for capital and related financing activities	(1,074,010)	(577)	(1,074,587)
CASH FLOW FROM INVESTING ACTIVITIES			
Earnings on investments	22,535	1,530	24,065
Net increase (decrease) in cash and cash equivalents	(276,816)	(79,638)	(356,454)
CASH AND CASH EQUIVALENTS - BEGINNING	1,221,189	95,578	1,316,767
CASH AND CASH EQUIVALENTS - ENDING	$ 944,373	$ 15,940	$ 960,313
Non cash transactions			
Amortization of bond issuance cost	20,356	0	20,356
Purchase capital asset by lease obligation	0	63,012	63,012
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 133,571	$ (262,446)	$ (128,875)
Adjustments to reconcile operating income to net cash provided (used) for operating activities:			
Depreciation	526,045	149,343	675,388
(Increase) decrease in accounts receivable	(56,583)	(53,197)	(109,780)
(Increase) decrease in interfund receivable	(122,897)	7,497	(115,400)
(Increase) decrease in prepaid expenses	(5,000)	(2,700)	(7,700)
Increase (decrease) in accounts payable	27,175	773	27,948
Increase (decrease) in salaries payable	0	4,630	4,630
Increase (decrease) in interfund payable	(62,138)	68,974	6,836
Net cash provided (used) by operating activities	$ 440,173	$ (87,126)	$ 353,047

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

City of Tallulah
Notes to the Basic Financial Statements

INDEX

City of Tallulah
Notes to the Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The accompanying financial statements of the City of Tallulah have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY The City of Tallulah was founded in 1856 and is incorporated under the provisions of the "Lawrason Act" (Louisiana Revised Statutes (R.S.) 33:321-481) of the constitution of the state of Louisiana. The City is located in the parish of Madison and has a population of 9,163. The City is governed by the mayor and five-member council. The mayor and council members serve four-year terms which expire on June 30, 2006.

As the governing authority of the City, for reporting purposes, the City of Tallulah is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the City), (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.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the City of Tallulah for 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 financial burdens on the City.
2. Organizations for which the City does not appoint a voting majority but are fiscally dependent on the City.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization were not included because of the nature or significance of the relationship.

Because the City appoints the governing body of the Tallulah Housing Authority, the Housing Authority was determined to be a component unit of the City of Tallulah, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the City and do not present information on the housing authority or the general government services provided by that governmental unit.

B. FUND ACCOUNTING The City uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

Funds are classified into two categories; governmental and proprietary. Each category, in turn, is divided into separate "fund types." Governmental funds are used to account for a government's general activities, where the focus of attention in on the providing of services to the public as opposed to proprietary funds where the focus of attention is on the recovering the cost of providing services to the public or other agencies through service charges or user fees. Fiduciary funds are used to account for assets held for others. The City's current operations require the use of governmental and proprietary fund types described as follows:

Governmental Funds

General fund – is the general operating fund of the City. It accounts for all financial resources, except those required to be accounted for in other funds.

LCDBG fund – is used to account for the proceeds of a federal capital grant that was restricted for street improvements.

1998 General Obligation Bond fund – is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs regarding the 1998 General Obligation Bond.

1998 Public Improvement Bonds fund – is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs regarding the 1998 Public Improvement Bonds.

Proprietary Fund - Enterprise Funds – account for the operations of the City's water and sewer systems. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements (GWFS) The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities was prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions.”

Program revenues Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Allocation of indirect expenses The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statements (FFS)

Governmental Funds The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due. Compensated absences and claims and judgments are reported in a governmental fund only if the claims are due and payable.

With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

Revenues Ad valorem taxes are recorded in the year the taxes are due and payable. Ad valorem taxes are assessed on a calendar-year basis and attach as an enforceable lien and become due and payable on the date the tax rolls are filed with the recorder of mortgages. Louisiana Revised Statute 47:1994 requires that the tax roll be filed on or before November 15 of each year. Ad valorem taxes become delinquent if not paid by December 31. The taxes are normally collected in December, January and February of the current year.

Franchise taxes and intergovernmental revenues are recorded when the City is entitled to the funds.

Interest income on time deposits is recorded when the interest has been earned and the amount is determinable.

Substantially all other revenues are recorded when they are received by the City.

Based on the above criteria, ad valorem taxes, franchise taxes and intergovernmental revenues have been treated as susceptible to accrual.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Other Financing Source (Use) Transfers between funds that are not expected to be repaid are accounted for as other financing sources and are recognized when the underlying event occurs.

Proprietary Funds Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The school board has elected pursuant to GASB Statement No. 20, to apply all GASB pronouncements and only FASB pronouncements issued before November 30, 1989.

Operating revenues and expenses Proprietary fund distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. BUDGET PRACTICES A preliminary budget for the ensuing year is prepared by the clerk in May. The proposed budget is reviewed by the mayor and the City Council and made available to the public. During the June meeting of the City Council, the City holds a public hearing on the proposed budget in order to receive comments from citizens. Changes are made to the proposed budget based on the public hearing and the desires of the City Council as a whole. The budget is then adopted during the June meeting, and notice is published in the official journal.

City of Tallulah
Notes to the Basic Financial Statements

During the year, the City Council receives monthly budget comparison statements which are used as a tool to control the operations of the City. The City Clerk presents necessary budget amendments to the Board when he determines that actual operations are differing materially from those anticipated in the original budget. The Board in regular session reviews the proposed amendments, makes necessary changes, and formally adopts the amendments. The adoption of amendments is included in the City's minutes published in the official journal. The budget is established and controlled by the mayor and council members at the functional level of expenditure. Unexpended appropriations lapse at year-end and must be reappropriated for the following year to be expended. All changes in the budget must be approved by the mayor and the council members. The City does not use encumbrance accounting in its accounting system.

E. CASH AND CASH EQUIVALENTS Under state law, the City may deposit funds within a fiscal agent bank organized under the laws of the state of Louisiana, the laws of any other state in the union, or the laws of the United States of America. The City may invest in certificates and time deposits of state banks organized under Louisiana laws and national banks having principal offices in Louisiana.

For purposes of the statement of cash flows, cash equivalents include all highly liquid investments with a maturity date of three months or less when purchased.

F. INVESTMENTS Under state law, the City may invest funds in obligations of the United States of America, in federally insured investments, or in time deposits with state banks organized under Louisiana law and national banks having principal offices in Louisiana. Investments in marketable securities (United States Treasury Notes) are reported at their cost on Statement A, which is the same as their market value.

G. CAPITAL ASSETS Capital assets are recorded at either historical cost or estimated historical cost and depreciated over their estimated useful lives (excluding salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. The City capitalizes all fixed assets. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used for governmental fund-type based on the following estimated useful lives:

Land	N/A
Building and Improvements	20 years
Furniture and equipment	5-10 years

The capital assets used in the proprietary fund-type operations are included on the balance sheet of the fund. Depreciation of all exhaustible fixed assets used by the proprietary fund type operations are charged as an expense against operations. Depreciation is computed using the straight-line method over estimated lives of 60 years for the plant, distribution system, and collection system, 3 to 10 years for furniture and equipment.

H. LONG-TERM DEBT Long-term obligations, such as bonded debt and bank loans are recognized as liabilities of a governmental fund only when due.

I. VACATION AND SICK LEAVE Permanent, full-time employees receive from five to ten days of vacation leave each year depending on length of service. Employees may accumulate vacation leave. Sick leave is earned at the rate of ten days per year; however, no employee may accumulate more than ten days of sick leave. Employees who resign or retire are compensated for annual leave accumulated to the date of separation, not to exceed ten days, provided in the case of resignation the employee has completed at least 12 months of continuous service and has given two weeks' notice of resignation.

The cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current-year expenditure in the governmental funds when leave is actually take or when employees are paid for accrued leave upon resignation or retirement.

J. RESTRICTED ASSETS Certain grants received by the City contained restrictions on spending for specific purposes. In the Sewer Enterprise Fund, specially-assessed sewer fees are restricted for future repair and maintenance of the sewer system.

K. RISK MANAGEMENT The City is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. To handle such risk of loss, the City maintains commercial insurance policies covering its automobiles, professional liability, general liability, and surety bond coverage. There were no significant reductions in insurance coverage during the year ended June 30, 2004.

L. RESTRICTED NET ASSETS For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;
Imposed by law through constitutional provisions or enabling legislation.

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

M. FUND BALANCES OF FUND FINANCIAL STATEMENTS Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

N. INTERFUND TRANSACTIONS Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transfers are reported as transfers.

O. USE OF ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. ELIMINATION AND RECLASSIFICATIONS In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances The following fund has a deficit in the fund balance at June 30, 2005:

Fund	Deficit Amount
LCDBG	$263

NOTE 3 - DEPOSITS & INVESTMENTS At June 30, 2005, the City had the following investments:

Investment type	Maturities	Fair Value
U. S. Treasury securities	Less than 1 year	$1,362,788

Interest Rate Risk: The City's policy does not address interest rate risk.

Credit Risk: The City invests in certificate of deposit and U. S. Treasury securities which do not have credit ratings.

Custodial Credit-Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's *deposits may not be returned to it. As of June 30, 2005, the City's bank balance of $866,105 was exposed to* custodial credit risk because it was uninsured and collateralized with security held by the pledging financial institutions trust department or agent but not in the City's name. Even though the pledge securities are considered uncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the City that the fiscal agent has failed to pay deposited funds upon request.

Custodial Credit Risk-Investments: For an investment, this is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, the City had 100% of its investments with an outside party.

NOTE 4 - LEVIED TAXES The City levies property taxes on real and business property located within the City's boundaries. Property taxes are levied by the City on property values assessed by the Madison Parish Tax Assessor and approved by the state of Louisiana Tax Commission. The Madison Parish Tax Assessor prepares tax statements for the City.

The following is a summary of authorized and levied property taxes:

	Authorized Millage	Levied Millage
City operations	17.93	17.39
Police and fire departments	7.53	6.54
1991 street program	9.48	8.40
1988 general obligation bond	Various	2.10
1981 general obligation bond	Various	1.01

The difference between authorized and levied millages is the result of reassessments of taxable property required by Article 7, Section 18(f) of the Louisiana Constitution of 1974.

City of Tallulah
Notes to the Basic Financial Statements

NOTE 5 - RECEIVABLES The following is a summary of receivables at June 30, 2005:

Class of Receivable	General	LCDBG	Water Fund	Sewer Fund	Total
Taxes:					
Sales and use	$ 76,362	$ 0	$ 0	$ 0	$ 76,362
Federal revenue		45,918	0	0	45,918
State revenue	42,632	0	0	0	42,632
Sewer user fees	0	0	0	102,095	102,095
Water user fees	0	0	148,086	0	148,086
Franchise Fees	49,407	0	0	0	49,407
Due from other governments	28,989	0	0	0	28,989
Other	19,339	0	0	0	19,339
Gross receivables	216,729	45,918	148,086	102,095	512,828
Less allowance for uncollectibles	0	0	4,443	3,063	7,506
Net total receivables	$216,729	$45,918	$143,643	$ 99,032	$505,322

NOTE 6 - INTERFUND TRANSACTIONS/BALANCES Individual balances due from/to other funds at June 30, 2005, are as follows:

Receivable Fund	Payable Fund	Amount
General	LCDBG	$ 293
	Other Governmental	2,405
	Water Enterprise	15,016
	Sewer Enterprise	149,693
1998 Bond Obligation	General	13,951
Other Governmental	General	35,230
Water Enterprise	General	221,000
	Sewer Enterprise	156,036
Sewer Enterprise	General	3,105
	Water Enterprise	6,679
Total		$603,408

Transfers during the year were as follows:

General Fund – transferred in	$100	
1998 Public Improvement Bonds – transferred in	974	
Other Governmental – transferred out		$1,074

City of Tallulah
Notes to the Basic Financial Statements

NOTE 7 - CAPITAL ASSETS The following presents the changes in general fixed assets for the year ended June 30, 2005:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Land	$ 78,500	$ 0	$ 0	$ 78,500
Construction in Progress	0	511,285	511,285	0
Depreciable Assets				
Infrastructure	0	511,285	0	511,285
Buildings and improvements	2,344,940	0	0	2,344,940
Furniture and equipment	1,118,773	139,311	85,994	1,172,090
Assets under capital lease	139,391	0	118,044	21,347
Total assets	3,681,604	1,161,881	715,323	4,128,162
Less: accumulated depreciation	2,884,742	110,502	85,994	2,909,250
Net capital assets	$ 796,862	$1,051,379	$629,329	$1,218,912

Depreciation expense was charged to governmental activities as follows:

General and administrative	$ 4,539
Police department	21,013
Fire Department	34,984
Street department	42,600
Culture and recreation	7,366
Total	$110,502

A summary of plant and equipment used in the Enterprise Funds follows:

	Water Fund	Sewer Fund	Total
Land	$ 65,451	$ 612,879	$ 678,330
Construction in progress	345,192	347,668	692,860
Depreciable Assets			
Equipment	588,966	375,469	964,435
Plant	2,034,116	7,866,378	9,900,494
Transmission lines	2,203,053	326,941	2,529,994
Water systems	5,427,566	0	5,427,566
Pumping stations	337,944	0	337,944
Total capital assets	11,002,288	9,529,335	20,531,623
Less accumulated depreciation	2,734,267	2,314,954	5,049,221
Net capital assets	$ 8,268,021	$ 7,214,381	$15,482,402

NOTE 8 - PENSION PLANS Substantially all employees of the City of Tallulah are members of either the Firefighters' Retirement System of Louisiana, the Municipal Police Retirement System of Louisiana, or the Social Security System. The state retirement systems are each multiple-employer, public employee retirement systems (PERS), controlled and administered by separate boards of trustees.

FIREFIGHTERS' RETIREMENT SYSTEM OF LOUISIANA Membership in the Louisiana Firefighters' Retirement System is mandatory for all full-time firefighters employed by a municipality, parish, or fire protection district that did not enact an ordinance before January 1, 1980, exempting itself from participation in the System. Employees are eligible to retire at or after age 55 with at least 12 years of creditable service or at or after age 50 with at least 20 years of creditable service. Upon retirement, members are entitled to a retirement benefit, payable monthly for lie, equal to 3⅓ percent of their final-average salary for each year of creditable service, not to exceed 100 percent of their final-average salary. 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 12 years of service and do not withdraw their employee contributions may retire at or after age 55 (or at or after age 50 with at least 20 years of creditable service at termination) 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 Firefighters' Retirement System, Post Office Box 94095, Baton Rouge, Louisiana 70804, or by calling (225) 925-4060.

Plan members are required by state statute to contribute 8.0 percent of their annual covered salary and the City of Tallulah is required to contribute an actuarially determined rate. The current rate is 24.0 percent of annual covered payroll. The contribution requirements of plan members and the City of Tallulah 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 City of Tallulah's contributions to the System for the years ending June 30, 2005, 2004, and 2003, were $35,039, $25,396, and $13,427, respectively, equal to the required contributions for each year.

MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM All full-time police department employees engage in law enforcement are required to participate in the System. Employees who retire 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 3⅓ percent of the 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 in writing to the Municipal Police Employees' Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (225) 929-7411.

Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the City of Tallulah is required to contribute at an actuarially determined rate. The current rate is 21.50 percent of annual covered payroll. The contribution requirements of plan members and the City of Tallulah 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 City of Tallulah's contributions to the System for the years ended June 30, 2005, 2004, and 2003, were $48,808, $28,597, and $21,945, respectively, equal to the required contributions for each year.

NOTE 9 - BANK LOANS PAYABLE During the year ended June 30, 1997, the City secured a bank loan to finance the construction of a factory building. The amount of the loan was $376,813 with a 7.0 percent interest. The remaining principal in the amount of $99,886 is due in annual installments through 2007. Loan payments are made from the general fund.

During the year ended June 30, 2005, the City secured a bank loan for $350,000 to be used for sewer rehabilitation. The loan is to be repaid when the City receives funds from the USDA. The interest rate on the loan is not to exceed 6%. The maturity date of the loan is November 1, 2006.

NOTE 10 - CHANGES IN LONG-TERM OBLIGATIONS The following is a summary of long-term obligation transactions for the year ended June 30, 2005:

	General Long-Term Debt						
	Bonded Debt	Capital Leases	Other	Legal Settlements	Total	Water Enterprise Fund-Revenue Bonds	Sewer Enterprise Fund
Balance, beginning	$2,161,990	$15,734	$271,866	$50,000	$2,499,590	$8,341,810	$ 0
Additions	0	0	0	0	0		413,012
Retirements	348,896	1,676	31,798	50,000	432,370	189,916	2,909
Balance, ending	$1,813,094	$14,058	$240,068	$ 0	$2,067,220	$8,151,894	$410,103
Amounts due in one year					$ 431,965	$ 196,132	$351,875

The classification "other" consists of $140,182 which represents the balance remaining as a result of the City of Tallulah's Police Retirement Fund merging with the Municipal and State Police Retirement System of Louisiana, and $99,886, representing a bank loan.

The amount of the Sewer Fund's long-term debt consists of a loan payable of $350,000 and a capital lease of $60,103.

Bonded debt payable at June 30, 2005, are comprised of the following individual issues:
General obligation bonds:

$260,000 - General Obligation Bonds. The remaining principal is due in annual installments of $4,782 to $14,527 through October 8, 2021, with interest of 5 percent. Debt retirement payments are made from the 1982 General Obligation Bond Debt Service Fund.	$173,446
$640,000 - 1998 Refunding Bonds. The remaining principal is due in annual installments of $15,000 to $80,000 through March 1, 2008, with interest of 4.95 percent. Debt retirement payments are made from the 1998 General Obligation Bond Debt Service Fund.	220,000
$327,740 - Certificates of Indebtedness. The principal will be due in annual installments of $42,187 June 30, 2011. Interest is 4.50 percent.	214,648
Total general obligation bonds	$608,094

Revenue bond - \$2,390,000 - 1998 Public Improvement Refunding Bonds. The remaining principal is due in annual installments of \$175,000 to \$260,000 through July 1, 2009. Interest rates are 3.90 percent to 5.00 percent. Debt retirement payments are made from the 1998 Public Improvement Bond Debt Service Fund.	1,205,000
Total bonded debt payable from Governmental fund-type funds	\$1,813,094
Water Revenue bonds	
\$6,500,000 - Principal is due in annual installments of \$140,000 to \$465,000 through September 1, 2024. Interest rates are 4.00 percent to 5.50 percent. Debt retirement payments are made from the Water Enterprise Fund.	\$5,745,000
\$1,733,000 - Principal is due in monthly installments starting February 26, 2003, of \$8,356 through January 26, 2041. Interest rate is 4.875 percent. Debt retirement payments are made from the Water Enterprise Fund.	1,692,701
\$728,000 - Principal is due in monthly installments starting August 20, 2002, through August 20, 2042. Interest rate is 4.50 percent. Debt retirement payments are made from the Water Enterprise Fund.	714,193
Total revenue bonds payable from Water Enterprise Fund	\$8,151,894

Debt service funds have \$749,948 available to service the bonded debt in the Governmental fund-type funds. The annual requirements to amortize all outstanding debt at June 30, 2005 are as follows:

	General Long-Term Debt			Water Enterprise Fund		Sewer Enterprise Fund	
Year	Principal	Interest	Total	Principal	Interest	Principal	Interest
2006	\$ 431,965	\$100,427	\$532,392	\$ 196,132	\$432,940	\$351,875	\$22,016
2007	376,574	79,378	455,952	212,407	418,915	11,813	2,109
2008	379,286	58,227	437,513	223,745	403,703	12,294	1,629
2009	385,617	90,425	476,042	240,147	634,641	12,794	1,129
2010	376,651	23,613	400,264	253,550	698,509	13,313	609
2011-2015	67,998	3,781	71,779	1,185,746	772,702	8,014	107
2016-2020	49,129	2,125	51,254	2,117,193	849,780		
2021-2025				2,104,750	783,565		
2026-2030				356,342	460,222		
2031-2035				452,330	346,373		
2036-2040				574,216	250,385		
2041-2042				235,336	139,059		
Total	\$2,067,220	\$357,976	\$2,425,196	\$8,151,894	\$6,190,794	\$410,103	\$27,599

General obligation bonds totaling \$608,094 at June 30, 2005, are secured by an annual ad valorem tax levy. In accordance with Louisiana Revised Statute 39:562, the City is legally restricted from incurring long-term bonded debt in excess of 35 percent of the assessed value of taxable property in the City. Assessed value for the 2004 tax roll was \$16,196,500. The City is within the statutory limitation of \$5,668,775.

NOTE 11 – CAPITAL LEASES The City entered into a lease agreement for financing the acquisition of equipment and a backhoe. The assets acquired through capital leases are as follows:

	General Fund	Sewer Fund
Asset:		
Equipment	$21,347	
Backhoe		$63,012

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30,	General Fund	Sewer Fund
2006	$ 4,784	$13,922
2007	4,371	13,922
2008	4,371	13,922
2009	2,564	13,922
2010	0	10,121
Total minimum lease payments	16,090	65,809
Less: amount representing interest	2,032	5,706
Present value of minimum lease payments	$14,058	$60,103

NOTE 12 - LITIGATION AND CLAIMS At June 30, 2005, the City is involved in several lawsuits. In the opinion of the City's legal counsel, the outcome of any remaining lawsuits will not materially affect the financial statements.

NOTE 13 - SEGMENT INFORMATION The City maintains two enterprise funds which provide water and sewer services. Segment information for the year ended June 30, 2005, was as follows:

Condensed Statement of Net Assets

	Water	**Sewer**	**Total**
Assets:			
Current assets	$255,430	$122,046	$377,476
Restricted assets	842,029		842,029
Interfund receivables	377,036	9,784	386,820
Capital assets (net)	8,268,021	7,214,381	15,482,402
Other assets	221,518		221,518
Total assets	9,964,034	7,346,211	17,310,245
Liabilities			
Current liabilities	285,784	447,878	733,662
Interfund payables	21,695	305,729	327,424
Noncurrent liabilities	7,955,762	58,228	8,013,990
Total liabilities	8,263,241	811,835	9,075,076
Net assets:			
Invested in capital assets, net of related debt	533,777	7,214,381	7,748,158

Restricted	842,029		842,029
Unrestricted	324,987	(680,005)	(355,018)
Total net assets	$1,700,793	$6,534,376	$8,235,169

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Water	Sewer	Total
Charges for services	$1,598,456	$456,266	$2,054,722
Other operating income	28,268	153,893	182,161
Total operating revenues	1,626,724	610,159	2,236,883
Depreciation and amortization expense	526,045	149,343	675,388
Other expenses	962,665	720,199	1,682,864
Total operating expenses	1,488,710	869,542	2,358,252
Operating income (loss)	138,014	(259,383)	(121,369)
Nonoperating revenues (expenses)			
Interest earnings	22,535	1,530	24,065
Federal grants	334,486		334,486
Interest and back charges	(535,757)		(535,757)
Other	(20,356)		(20,356)
Total nonoperating revenues (expenses)	(199,092)	1,530	(197,562)
Change in net assets	(61,078)	(257,853)	(318,931)
Net assets, beginning	1,761,871	6,792,229	8,554,100
Net assets, ending	$1,700,793	$6,534,376	$8,235,169

Condensed Statement of Cash Flows

	Water	Sewer	Total
Net cash provided (used) by:			
Operating activities	$440,173	$(87,126)	$ 353,047
Noncapital financing activities	334,486	6,535	341,021
Capital and related financing activities	(1,074,010)	(577)	(1,074,587)
Investing activities	22,535	1,530	24,065
Total cash provided (used) by:	(276,816)	(79,638)	(356,454)
Beginning cash and cash equivalents	1,221,189	95,578	1,316,767
Ending cash and cash equivalents	$944,373	$15,940	$960,313

REQUIRED SUPPLEMENTAL INFORMATION

General Fund- is the general operating fund of the City. It accounts for all financial resources, except those required to be accounted for in other funds.

CITY OF TALLULAH

GENERAL FUND
Bugetary Comparison Schedule
For the Year Ended June 30, 2005

Exhibit I

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
BUDGETARY FUND BALANCES, Beginning	$ 410,118	$ 410,118	$ 410,118	$ 0
Resources (inflows)				
Local sources:				
Taxes				
Ad valorem	419,700	419,700	437,077	17,377
Sales and use	1,010,000	1,010,000	994,277	(15,723)
Beer Tax	10,000	10,000	10,783	783
Licenses and permits	145,000	145,000	148,115	3,115
Intergovemmental revenues	133,900	133,900	195,808	61,908
Rental income	6,000	6,000	7,280	1,280
Earnings on investments	0	0	2,951	2,951
Miscellaneous revenues	226,735	226,735	235,836	9,101
Fines and forfeitures	123,300	123,300	130,537	7,237
Transfers from other funds	130,000	130,000	100	(129,900)
Amounts available for appropriations	2,614,753	2,614,753	2,572,882	(41,871)
Charges to appropriations (outflows)				
Current:				
General and administrative	450,750	450,750	501,556	(50,806)
Police Department	512,060	512,060	518,273	(6,213)
Fire Department	308,890	308,890	337,721	(28,831)
Street Department	425,850	425,850	400,623	25,227
Culture and recreation	48,980	48,980	49,084	(104)
Legislative	43,500	43,500	51,454	(7,954)
Transportation	18,000	18,000	20,284	(2,284)
Capital outlay	8,500	8,500	10,597	(2,097)
Debt service:				
Principal retirement	120,905	120,905	110,961	9,944
Interest expense	7,200	7,200	31,845	(24,645)
Transfers to other funds	267,500	267,500	0	267,500
Total charges to appropriations	2,212,135	2,212,135	2,032,398	179,737
BUDGETARY FUND BALANCES, ENDING	$ 402,618	$ 402,618	$ 540,484	$ 137,866

City of Tallulah

Notes to the Budgetary Comparison Schedules
For the Year Ended June 30, 2005

Note B. BUDGET PRACTICES A preliminary budget for the ensuing year is prepared by the clerk in May. The proposed budget is reviewed by the mayor and the City Council and made available to the public. During the June meeting of the City Council, the City holds a public hearing on the proposed budget in order to receive comments from citizens. Changes are made to the proposed budget based on the public hearing and the desires of the City Council as a whole. The budget is then adopted during the June meeting, and notice is published in the official journal.

During the year, the City Council receives monthly budget comparison statements which are used as a tool to control the operations of the City. The City Clerk presents necessary budget amendments to the Board when he determines that actual operations are differing materially from those anticipated in the original budget. The Board in regular session reviews the proposed amendments, makes necessary changes, and formally adopts the amendments. The adoption of amendments is included in the City's minutes published in the official journal.

The budget is established and controlled by the mayor and council members at the functional level of expenditure. Unexpended appropriations lapse at year-end and must be reappropriated for the following year to be expended. All changes in the budget must be approved by the mayor and the council members. The City does not use encumbrance accounting in its accounting system.

CITY OF TALLULAH

Notes to the Budgetary Comparison Schedule
For the Year Ended June 30, 2005

Note C- Budget to GAAP Reconciliation - Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	GENERAL FUND
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the Budgetary Comparison Schedule	$ 2,572,882
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(410,118)
Transfers in are shown as resources (inflows) for budgetary purposes but as other financing sources for the Statement of Revenues and Expenditures and Changes in Fund Balances.	(100)
Ad valorem taxes budgeted in General Fund, but reported in 1998 Public Improvement Bonds Fund	(308,823)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 1,853,841
Uses/outflows of resources:	
Actual amounts (budgetary basis) "Total charges to appropriations" from the Budgetary Comparison Schedule	2,032,398
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 2,032,398

SUPPLEMENTAL INFORMATION

CITY OF TALLULAH

NONMAJOR GOVERNMENTAL FUNDS
Combining Balance Sheet - By Fund Type
June 30, 2005

Exhibit 2

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECT	TOTAL
ASSETS				
Cash and cash equivalents	$ 132,030	$ 40,749	$ 0	$ 172,779
Interfund receivables	33,510	1,720	0	35,230
TOTAL ASSETS	165,540	42,469	0	208,009
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts, salaries and other payables	3,329	0	0	3,329
Interfund payables	2,405	0	0	2,405
TOTAL LIABILITIES	5,734	0	0	5,734
FUND BALANCES:				
Reserved for debt service	0	42,469	0	42,469
Unreserved and undesignated	159,806	0	0	159,806
Total Fund Balances	159,806	42,469	0	202,275
TOTAL LIABILITIES AND FUND BALANCES	$ 165,540	$ 42,469	$ 0	$ 208,009

CITY OF TALLULAH

NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - By Fund Type
For the Year Ended June 30, 2005

Exhibit 3

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECT	TOTAL
REVENUES				
Local sources:				
Taxes				
Ad valorem	$ 108,977	$ 13,105	$ 0	$ 122,082
Intergovernmental revenues	159,551	0	0	159,551
Use of money and property	2,981	157	0	3,138
Miscellaneous revenues	2,398	0	0	2,398
Total revenues	273,907	13,262	0	287,169
EXPENDITURES				
Current:				
Street Department	126,670	0	0	126,670
Health and welfare	141,086	0	0	141,086
Capital outlay	10,670	0	0	10,670
Debt service:				
Principal retirement	0	6,409	0	6,409
Interest and bank charges	0	9,006	0	9,006
Total expenditures	278,426	15,415	0	293,841
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(4,519)	(2,153)	0	(6,672)
OTHER FINANCING SOURCES (USES)				
Transfers out	(10)	(964)	(100)	(1,074)
TOTAL OTHER FINANCING SOURCES (USES)	(10)	(964)	(100)	(1,074)
NET CHANGE IN FUND BALANCES	(4,529)	(3,117)	(100)	(7,746)
FUND BALANCES - BEGINNING	164,335	45,586	100	210,021
FUND BALANCES - ENDING	$ 159,806	$ 42,469	$ 0	$ 202,275

City of Tallulah

Nonmajor Special Revenue Funds

SECTION 8 – The Section Fund accounts for the operations of the lower income housing assistance program which provides aid to very low-income families in obtaining decent, safe, and sanitary rental housing. Financing is provided by a federal grant.

STREET PROGRAM – The Street Program Fund accounts for the maintenance of the City streets. Major means of financing is provided by a specific City-wide ad valorem tax.

BUILDING REPAIR – The Building Repair Fund accounts for repairs and maintenance of the City hall funded by a grant from the state of Louisiana.

TEC BUILDING – The TEC Building Fund accounts for revenue received from the rental of a City-owned building.

CITY OF TALLULAH

NONMAJOR SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2005

Exhibit 4

	SECTION 8	STREET PROGRAM	BUILDING REPAIR	TEC BUILDING	TOTAL
ASSETS					
Cash and cash equivalents	$ 80,810	$ 41,294	$ 0	$ 9,926	$ 132,030
Interfund receivables	17,179	15,951	0	380	33,510
TOTAL ASSETS	97,989	57,245	0	10,306	165,540
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts, salaries and other payables	0	3,329	0	0	3,329
Interfund payables	0	2,405	0	0	2,405
TOTAL LIABILITIES	0	5,734	0	0	5,734
FUND BALANCES:					
Unreserved and undesignated	97,989	51,511	0	10,306	159,806
TOTAL LIABILITIES AND FUND BALANCES	$ 97,989	$ 57,245	$ 0	$ 10,306	$ 165,540

CITY OF TALLULAH

NONMAJOR SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2005

Exhibit 5

	SECTION 8	STREET PROGRAM	BUILDING REPAIR	TEC BUILDING	TOTAL
REVENUES					
Local sources:					
Taxes					
Ad valorem	$ 0	$ 108,977	$ 0	$ 0	$ 108,977
Intergovernmental revenues	159,551	0	0	0	159,551
Use of money and property	1,539	1,359	0	83	2,981
Miscellaneous revenues	2,398	0	0	0	2,398
Total revenues	163,488	110,336	0	83	273,907
EXPENDITURES					
Current:					
Public works	0	126,670	0	0	126,670
Health and welfare	141,086	0	0	0	141,086
Capital outlay	0	10,670	0	0	10,670
Total expenditures	141,086	137,340	0	0	278,426
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	22,402	(27,004)	0	83	(4,519)
OTHER FINANCING SOURCES (USES)					
Transfers out	0	0	(10)	0	(10)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(10)	0	(10)
NET CHANGE IN FUND BALANCES	22,402	(27,004)	(10)	83	(4,529)
FUND BALANCES - BEGINNING	75,587	78,515	10	10,223	164,335
FUND BALANCES - ENDING	$ 97,989	$ 51,511	$ 0	$ 10,306	$ 159,806

City of Tallulah

Nonmajor Debt Service Funds

1988 CERTIFICATES OF INDEBTEDNESS FUND – The 1988 Certificates of Indebtedness Fund accumulates monies for payment of the $700,000 Certificates of Indebtedness dated February 1, 1988, issued for the purpose of refunding and extending certain obligations incurred by the City. Funding is provided from the excess of annual revenues accruing to the budget of the City for a ten-year period. These certificates were retired during the year ended June 30, 2000.

1981 GENERAL OBLIGATION BOND FUND – The 1981 General Obligation Bond fund accumulates monies for payment of $260,000 General Obligation Bonds dated October 8, 1981, issued for the purpose of constructing improvements and extensions to the sewer system of the City. Funding is provided by an ad valorem tax.

CITY OF TALLULAH

NONMAJOR DEBT SERVICE FUNDS
Combining Balance Sheet
June 30, 2005

Exhibit 6

	1988 CERTIFICATES OF INDEBTEDNESS	1981 GENERAL OBLIGATION BOND	TOTAL
ASSETS			
Cash and cash equivalents	$ 0	$ 40,749	$ 40,749
Investments	0	0	0
Receivables	0	0	0
Interfund receivables	0	1,720	1,720
TOTAL ASSETS	0	42,469	42,469
FUND BALANCES:			
Reserved for debt service	0	42,469	42,469
TOTAL FUND BALANCES	$ 0	$ 42,469	$ 42,469

CITY OF TALLULAH

NONMAJOR DEBT SERVICE FUNDS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2005

Exhibit 7

REVENUES	1988 CERTIFICATES OF INDEBTEDNESS	1981 GENERAL OBLIGATION BOND	TOTAL
Local sources:			
Taxes			
Ad valorem	$ 0	$ 13,105	$ 13,105
Use of money and property	4	153	157
Total revenues	4	13,258	13,262
EXPENDITURES			
Debt service:			
Principal retirement	0	6,409	6,409
Interest and bank charges	0	9,006	9,006
Total expenditures	0	15,415	15,415
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	4	(2,157)	(2,153)
OTHER FINANCING SOURCES (USES)			
Transfers out	(964)	0	(964)
TOTAL OTHER FINANCING SOURCES (USES)	(964)	0	(964)
NET CHANGE IN FUND BALANCES	(960)	(2,157)	(3,117)
FUND BALANCES - BEGINNING	960	44,626	45,586
FUND BALANCES - ENDING	$ 0	$ 42,469	$ 42,469

COMPARATIVE INFORMATION

REQUIRED BY

BOND CONVENANT

WITH THE

U. S. DEPARTMENT OF AGRICULTURE

CITY OF TALLULAH

PROPRIETARY FUND TYPE - ENTERPRISE FUNDS
Comparative Statement of Net Assets
June 30, 2005 and 2004

Exhibit 8

	2005 WATER FUND	2004 WATER FUND	2005 SEWER FUND	2004 SEWER FUND
ASSETS				
Current Assets:				
Cash	$ 102,344	$ 321,216	$ 15,940	$ 95,578
Receivables	143,643	87,060	99,032	45,835
Interfund receivables	377,036	254,139	9,784	17,281
Prepaid expenses	5,000	0	4,011	1,311
Restricted Assets:				
Cash	4,475	3,243	0	0
Investments	837,554	896,730	0	0
Total Current Assets	1,470,052	1,562,388	128,767	160,005
Long-term Assets				
Property, plant and equipment (net of accumulated depreciation)	8,268,021	8,445,729	7,214,381	6,953,044
Deferred bond issuance costs (net of amortization)	221,518	241,874	0	0
TOTAL ASSETS	9,959,591	10,249,991	7,343,148	7,113,049
LIABILITIES				
Current Liabilities				
Accounts payable	56,887	29,712	27,223	26,450
Salaries payable	10,152	10,152	7,428	2,798
Interfund payables	21,695	83,833	305,729	236,755
Deferred revenue	22,613	22,613	0	0
Customer deposits	0	0	61,352	54,817
Current portion of long-term debt	196,132	189,917	351,875	0
Total Current Liabilities	307,479	336,227	753,607	320,820
Long-term debt - revenue bonds payable	7,955,762	8,151,893	58,228	0
TOTAL LIABILITIES	8,263,241	8,488,120	811,835	320,820
NET ASSETS				
Invested in capital assets, net of related debt	533,777	535,710	7,214,381	6,953,044
Restricted	842,029	899,973	0	0
Unrestricted	320,544	326,188	(683,068)	(160,815)
Total Net Assets	$ 1,696,350	$ 1,761,871	$ 6,531,313	$ 6,792,229

City of Tallulah

Exhibit 9

Schedule of Compensation Paid Council Members
For the Year Ended June 30, 2005

The schedule of per diem paid council members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of council members is included in legislative expenditures of the General Fund. In accordance with Louisiana Revised Statute 33:405, council members receive $500 per month. The president receives $525 per month.

Tommy Watson	$ 6,000
Charles Finlayson, President	6,300
Alberta Glispy	6,000
*Gloria Hayden	10,500
Janet Clark	6,000
TOTAL	$34,800

* Gloria Hayden also serves as Street Commissioner in which the compensation was $4,500.

SINGLE AUDIT INFORMATION

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The CPA. Never Underestimate The Value.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Mayor and Council Members
City of Tallulah
Tallulah, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, *and the aggregate remaining fund information of the City of Tallulah as of and for the year ended June 30, 2005,* which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2005. 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 of America.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the City'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 an opinion 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 City's ability to initiate, record, process, 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 05-F1, 05-F2, 05-F3, 05-F4, and 05-F6.

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 caused by error or fraud 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 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 weakness. However, we believe the reportable conditions noted above are not material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as items 05-F2.

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Management Letter Items

We also noted certain additional matters that we reported to management of the City in a separate letter dated December 28, 2005.

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

Allen, Green & Williamson, LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
December 28, 2005

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Mayor and Council Members
City of Tallulah
Tallulah, Louisiana

Compliance
We have audited the compliance of the City of Tallulah with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-F7.

Internal Control Over Compliance
The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Also Located in Shreveport, Louisiana
Member: American Institute of Certified Public Accountants, Society of Louisiana Certified Public Accountants and American Institute of Certified Public Accountants Division for CPA Firms
Equal Opportunity Employer

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-F7.

A material weakness is reportable 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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated December 28, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken a whole.

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

Allen, Green & Williamson, LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
December 28, 2005

City of Tallulah
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM NAME	CFDA Number	Pass-Through Grantor No.	Expenditures
CASH FEDERAL AWARDS			
United States Department of Housing and Urban Development			
Passed Through Office of the Governor, Division of Administration			
Community Development Block Program – States Program	14.228	107-900349	$ 459,180
Direct Programs:			
Section 8 Housing Program	14.177	LA242V0003	159,551
United States Department of Agriculture			
Direct Program - Water and Waste Disposal Systems for Rural Communities	10.760		334,486
TOTAL FEDERAL AWARDS			$953,217

City of Tallulah
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

NOTE 1 - GENERAL The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Tallulah. The City's reporting entity is defined in Note 1 to the City's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS Federal awards revenues are reported in the City's financial statements as follows:

Capital Projects	
LCDBG	$459,180
Special Revenue	
Section 8	159,551
Enterprise Fund	
Water Fund	334,486
Total	$953,217

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with accounting principles generally accepted in the United States of America.

NOTE 5 - FEDERAL AWARDS For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures. In accordance with PIH98-14 "federal awards" do not include operating income from rents or investments (or other non-federal sources). The entire amount of operating subsidy received during the fiscal year is considered to be "expended" during the fiscal year.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART I - Summary of the Auditors' Results

Financial Statement Audit

i. The type of audit report issued was unqualified.

ii. There were six reportable conditions required to be disclosed by Government Auditing Standards, issued by the Comptroller General of the United States of America.

The reportable conditions were not considered to be material weaknesses.

iii. There was one instance of noncompliance considered material, as defined by the Government Auditing Standards, to the financial statement.

Audit of Federal Awards

iv. There were no reportable conditions required to be disclosed by OMB Circular A-133.

v. The type of report the auditor issued on compliance for major programs was unqualified.

vi. The audit disclosed one audit findings which the auditor is required to report under OMB Circular A-133, Section .510(a).

vii. The major federal programs are:

CFDA #14.228 Community Development Block Grant
CFDA #10.760 Water and Waste Disposal Systems for Rural Communities

viii. The dollar threshold used to distinguish between Type A and Type B programs as described in OMB Circular A-133, Section .520(b) was $300,000.

ix. The auditee does not qualify as a low-risk auditee under OMB Circular A-133, Section .530.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART II - Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America:

Reference # and title: 05-F1 Lack of Separation of Duties

Criteria or specific requirement: Good internal control procedures require assignment of job responsibilities in such a way as to divide the accounting function between two or more people so that if transactions were processed that were not consistent with management's policies and/or errors were made in the accounting process, these transactions would be discovered by the City's personnel in the process of performing their assigned duties within a timely period and the necessary corrections could be made.

Condition found: The City Clerk now initiates all cash transactions (processing checks/making wire transfers) in which he is one of two signatures on all checks, maintains the accounting records, and prepares bank reconciliations for all funds.

Possible asserted effect (cause and effect):

Cause: Lack of importance placed upon having adequate separation of duties.

Effect: The City Clerk now does all the processing of checks and reconciles all bank accounts.

Recommendations to prevent future occurrences: The City should realign duties between the City Clerk and the two other individuals in the Clerk's office in order to have better internal control over the accounting function. The bank reconciliations should be prepared by someone independent of the check preparation process of a fund. The bank statement and the related canceled checks should be received by the bank reconciler from the bank unopened.

Reference # and title: 05-F2 Accounting Records on Investments not Maintained Properly

Criteria or specific requirement: Bond covenants require that full and correct accounting records are maintained for the sinking fund account, reserve account, and contingency fund.

Condition found: The City does not reconcile the investment accounts each month for the sinking fund account, reserve account, or the contingency fund account at present.

Possible asserted effect (cause and effect):

Cause: The City receives the statements from JP Morgan and reviews, but activity each month is not recorded in the accounting system.

Effect: The City is not in compliance with existing bond covenants.

Recommendations to prevent future occurrences: The City should record activity each month in the accounting system when the investment statements are received from JP Morgan in order that they comply with bond covenants and maintain accurate information regarding the sinking fund account, reserve fund account and contingency fund account.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART II - Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America:

Reference # and title: 05-F3 Invoices Not Paid Timely

Criteria or specific requirement: Good cash management requires that invoices are paid on a timely basis.

Condition found: A test of 53 cash disbursements revealed the following:

36 invoices were not paid timely.

Possible asserted effect (cause and effect):

Cause: Cash flows shortages caused by recent operating deficits.

Effect: Weak internal control over payments.

Recommendations to prevent future occurrences: Invoices should be paid within the time period specified on the invoice.

Reference # and title: 05-F4 Unauthorized Costs of Cell Phone Use

Criteria or specific requirement: The City adopted a cell phone policy on February 24, 2005 which states in part "the Council will determine who will possess a city cell phone" and also, "the Council will monitor all cell phone usage".

Condition found: While testing expenditures for cell phone usage, it was noted that two council members have cell phones in their names, but the City is paying the bill each month. A review of the minutes revealed no approval by the Council for the City to pay expenses for the cell phones of council members. The City is not following the cell phone policy which it adopted. There was no evidence that the cost of cell phones is being monitored by the Council as the policy states. Also, the cell phone statements/invoices were copies and not the original invoice.

Possible asserted effect (cause and effect):

Cause: Unknown

Effect: The City is paying expenses for cell phones which were not authorized as required by cell phone policy.

Recommendations to prevent future occurrences: The City should follow adopted cell phone policy by having the City Council approve the employees/elected officials who possess a cell phone in which the City pays the expense. Also, the City should require all invoices be originals. The use of cell phones should be monitored for abusive use and when required be reimbursed for any charges considered unnecessary or abusive in nature as stated by the adopted policy.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART II - Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America:

Reference # and title: 05-F5 Untimely Cash Deposit

Criteria or specific requirement: Good cash management requires that cash receipts be deposited in a timely manner. AG&W considers deposits within three banking days as being timely.

Condition found: While testing cash receipts for the Water and Sewer Enterprise funds, it was noted that 4 of 10 tested where not deposited in a timely manner (within three business days).

Possible asserted effect (cause and effect):

Cause: The staff in the Water and Sewer Department has reverted to their old habit of making bank deposit haphazardly.

Effect: Cash deposits were not made in a timely manner by the City.

Recommendation to prevent future occurrences: The City should ensure that all cash receipts are deposited in a timely manner (within three business days).

Reference # and title: 05-F6 Violations of City Travel Policy

Criteria or specific requirement: The City adopted a travel policy on March 25, 2004 stating requirements for all travel by employees/elected officials.

Condition found: All cash expenditures for travel were examined and the following violations of the City's adopted travel policy were noted:

1) There was no evidence that the any of the cost for travel during the year ended June 30, 2005 was approved in advance as the adopted policy requires.

2) The travel vouchers were not signed by the employee/elected official submitting travel expenses as the adopted policy requires.

3) Proper documentation of mileage and purpose of the trip was not always evident. Several of the travel reimbursements had no agenda for the meeting/conference attended, but a statement written by the employee/elected official submitting the request for reimbursement.

4) Several trips were noted where more than one employee/elected official attended the same meeting/conference and both were reimbursed for mileage. The adopted policy requires the mode of transportation should be the most economical for the City. This would tend to indicate that if two or more employees/elected officials are attending the same meeting/conference, car pooling would be more economical for the City.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART II - Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America:

Possible asserted effect (cause and effect):

Cause: The Council and the staff don't place enough importance on proper documentation of travel expenses.

Effect: The City is reimbursing cost of travel without the required approval/documentation the adopted travel policy requires.

Recommendation to prevent future occurrences: The City should follow the travel policy which was legally adopted on February 25, 2004 by the City Council. The policy states clearly in item #8 that "travel shall be approved in advance of the trip". The policy also states that "travel vouchers must be signed and turned in after all trips to the Clerk's office". At a time when the City is experiencing a cash flow problem, it is of the utmost importance that costs for travel is monitored closely and the policy adopted followed by all employees/elected officials.

City of Tallulah
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

PART III - Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America:

Reference # and title: **05-F7** **Late Submission of the Audit Report to the USDA**

Federal Program: Water and Waste Disposal Systems for Rural Communities, CFDA#10.760.

Criteria or specific requirement: While LSA-R. S. 24:513A(5)(a) states "Audits shall be completed within six months of the close of the entity's fiscal year.", the United States Department of Agriculture requires the audit for the City be submitted within 150 days after fiscal year end of June 30 each year.

Condition found: The City's audit for the year ended June 30, 2005 was not submitted to the USDA within the 150 days after fiscal year end as required although the audit was filed timely by December 31, 2005 with the Legislative Auditor's office as required by Louisiana Statute.

Possible asserted effect (cause and effect):

Cause: The auditors' work load caused the City's audit to be submitted late.

Effect: The City is in violation of the requirements of the USDA.

Recommendation to prevent future occurrences: The City should request that the auditors begin their work on the audit of the City earlier in the fall in order to comply with the filing requirement the USDA.

Other Information

City of Tallulah
Summary Schedule of Prior Year Audit Findings
June 30, 2005

Reference # and title: **04-F1** **Lack of Separation of Duties**

Initially occurred: June 30, 2004

Condition found: The City Clerk now initiates all cash transactions (processing checks/making wire transfers) in which he is one of two signatures on all checks, maintains the accounting records, and prepares bank reconciliations for all funds.

Corrective action taken: Due to the small staff in the Mayor's office, the City Clerk is unable to separate duties in order to implement better internal control. See current-year finding 05-F1.

Reference # and title: **04-F2** **Use of Rubber Stamp**

Initially occurred: June 30, 2004

Condition found: Use of rubber signature stamp of the Mayor's signature.

Corrective action taken: The stamp of the Mayor's signature is controlled by the secretary to the Mayor where it is locked in her desk draw. The stamp is used judiciously and a log is kept of checks on which it is used.

Reference # and title: **04-F3** **Bank Reconciliations Not Prepared Timely**

Initially occurred: June 30, 2004

Condition found: Upon requesting the bank reconciliations for the month of June, 2004, we were told that the bank reconciliations for the audit year had not yet been completed.

Corrective action taken: The City Clerk and staff were able to spend much more time on normal duties, thus bank reconciliations were completed in a timely manner.

Reference # and title: **04-F4** **Accounting Records On Investments Not Maintained Properly**

Initially occurred: June 30, 2004

Condition found: The City does not reconcile the investment accounts for the sinking fund account, reserve account, or the contingency fund account at present.

Corrective action taken: The City Clerk has contracted with a CPA firm to reconcile the accounts and expects the accounts to be reconciled in a timely manner in the future. See current-year finding 05-F2.

City of Tallulah
Summary Schedule of Prior Year Audit Findings
June 30, 2005

Reference # and title: **04-F5** **Asset Management Law**

Initially occurred: June 30, 2004

Condition found: The City does not follow the asset management law by tagging fixed assets.

Corrective action taken: The City has moved forward to correct its mistakes regarding the Asset Management Law. As a result, all inventory asset items are listed in a book for each department with a corresponding number found on the asset tag attached to the respective item of equipment.

Reference # and title: **04-F6** **Late Submission of the Audit Report**

Initially occurred: June 30, 2004

Condition found: The audit report was filed with the Legislative Auditor's office after the deadline of December 31, 2004.

Corrective action taken: With much less interruptions in the City Clerk's office this fiscal year, the Clerk had ample time to complete all work for the year in plenty of time to meet the schedule for the audit as requested by the City's audit firm. The report was filed by the December 31, 2005 deadline.

Reference # and title: **04-F7** **Violation of the Local Government Budget Act**

Initially occurred: June 30, 2004

Condition found: The City Council failed to adopt the budget for the year ended June 30, 2004 for the General Fund and the Special Revenue Funds.

Corrective action taken: During the current fiscal year, the City Council adopted budgets for the City's General Fund and all Special Revenue Funds within the time allowed for such enactments.

Reference # and title: **04-F8** **Invoices Not Paid Timely**

Initially occurred: June 30, 2004

Condition found: A test of cash disbursements revealed the following:

29 invoices were not paid timely.

Corrective action taken: Cash flow problems have not allowed for complete correction of this problem. However, the City Clerk is well aware of the problem and will do as much as possible toward correcting the situation in the coming fiscal year. See current-year finding 05-F3.

City of Tallulah
Summary Schedule of Prior Year Audit Findings
June 30, 2005

Reference # and title: **04-F9** **Incomplete Personnel Files**

Initially occurred: June 30, 2004

Condition found: A test of personnel files revealed the following:

4 personnel files did not have proof of existence (I-9, social security card, i.e.)
The salary or hourly rate did not match amount paid to employee or there was no documentation of salary/hourly rate for 9 personnel files.
1 time sheet was not signed by supervisor.

Corrective action taken: All personnel files of current employees have been brought into compliance.

Reference # and title: **04-F10** **Credit Card Purchases**

Initially occurred: June 30, 2004

Condition found: In testing the vendor files for Sam's Club, Chase, and American Express the following was revealed:

10 of 11 tested for Sam's Club did not have supporting documentation attached to credit card statement.
10 of 10 tested for Chase did not have supporting documentation attached to credit card statement.
5 of 5 tested for American Express did not have supporting documentation attached to the credit card statement.

Corrective action taken: The City has destroyed all of its credit cards which are no longer used.

Reference # and title: **04-F11** **Cell Phone Usage**

Initially occurred: June 30, 2004

Condition found: In testing cell phone usage, it was revealed that two council members purchased cell phones in the City's name without prior approval of the City Council or the Mayor. Other members of the City Council do not have cell phones provided by the City. On the monthly billing statement for period ended June 24, 2004, one individual exceeded plan minutes by 832 at an additional cost of $324.48. Overage excess in lesser amounts were found on most cell phone statements.

Corrective action taken: The City has adopted a cell phone policy. See current-year finding 05-F4.

City of Tallulah
Summary Schedule of Prior Year Audit Findings
June 30, 2005

Reference # and title: **04-F12** **Late Submission of the Audit Report to the USDA**

Initially occurred: June 30, 2004

Condition found: The City did not file the audit by the end of the 150 days, November 30, 2004. The report was filed in February, 2005.

Corrective action taken: With more time to spend toward accomplishing a positive work flow, the City Clerk was able to complete all requisites for a timely audit. See current-year finding 05-F7.

Reference # and title: **04-F13** **Appointment/Termination of City Officials**

Initially occurred: June 30, 2004

Condition found: At the December 17, 2003 council meeting the City Council, without the recommendation of the mayor, terminated the City Clerk.

At a special council meeting on June 2, 2004 the City Council approved council member Gloria Hayden as the street commissioner for the 2005 fiscal year. The Council had previously approved council member Alberta Glispy as the street commissioner effective May 2003, a year later than the date the 4-year term of the current mayor and council began due to a hold up of elections.

Corrective action taken: The City Council has become aware of its responsibilities and has received instruction as to what constitutes illegality of action.

City of Tallulah
Corrective Action Plan for Auditor's Current Year Findings
June 30, 2005

Reference # and title: **05-F1** **Lack of Separation of Duties**

Condition: The City Clerk now initiates all cash transactions (processing checks/making wire transfers) in which he is one of two signatures on all checks, maintains the accounting records, and prepares bank reconciliations for all funds.

Corrective action planned: The City Clerk will realign duties between the three employees in the office in a manner that will better allow for proper accounting checks and balances.

Reference # and title: **05-F2** **Accounting Records on Investments not Maintained Properly**

Condition: The City does not reconcile the investment accounts each month for the sinking fund account, reserve account, or the contingency fund account at present.

Corrective action planned: The City Clerk will record each month's financial activities into general ledger reflecting the transactions recorded for JP Morgan's activity statements.

Reference # and title: **05-F3** **Invoices Not Paid Timely**

Condition: A test of 53 cash disbursements revealed the following:

36 invoices were not paid timely.

Corrective action planned: In order to maintain good cash controls and to avoid bank overdrafts, the City sometimes holds invoices for a few extra days until necessary cash becomes available. However, the City Clerk understands the problem and will make every attempt to pay invoices in a more timely basis as cash balances allow.

Reference # and title: **05-F4** **Authorized Costs of Cell Phones Use**

Condition: While testing expenditures for cell phone usage, it was noted that two council members have cell phones in their names, but the City is paying the bill each month. A review of the minutes revealed no approval by the Council for the City to pay expenses for the cell phones of council members. The City is not following the cell phone policy which it adopted. There was no evidence that the cost of cell phones is being monitored by the Council as the policy states. Also, the cell phone statements/invoices were copies and not the original invoice.

Corrective action planned: The City will follow its cell phone policy by (1) determining who shall have a cell phone, (2) requiring that original invoices be submitted by cell phone user, and (3) monitoring any possible abuse of cell phone usage.

City of Tallulah
Corrective Action Plan for Auditor's Current Year Findings
June 30, 2005

Reference # and title: **05-F5** **Untimely Cash Deposit**

Condition: **:** While testing cash receipts for the Water and Sewer Enterprise funds, it was noted that 4 of 10 tested where not deposited in a timely manner (within three business days).

Corrective action planned: The City's water and sewer department will ensure that all cash received will be deposited timely as required by prescribed standards.

Reference # and title: **05-F6** **Violations of City Travel Policy**

Condition: All cash expenditures for travel were examined and the following violations of the City's adopted travel policy were noted:

5) There was no evidence that any of the cost for travel during the year ended June 30, 2005 was approved in advance as the adopted policy requires.

6) The travel vouchers were not signed by the employee/elected official submitting travel expenses as the adopted policy requires.

7) Proper documentation of mileage and purpose of the trip was not always evident. Several of the travel reimbursements had no agenda for the meeting/conference attended, but a statement written by the employee/elected official submitting the request for reimbursement.

8) Several trips were noted where more than one employee/elected official attended the same meeting/conference and both were reimbursed for mileage. The adopted policy requires the mode of transportation should be the most economical for the City. This would tend to indicate that if two or more employees/elected officials are attending the same meeting/conference, car pooling would be more economical for the City.

Corrective action planned: *The City will follow closely its travel policy adopted on February 25, 2004, including* the requirement that council member travel be approved in advance with all supporting documentation to be submitted by the traveler with a signed voucher.

Reference # and title: **05-F7** **Late Submission of the Audit Report to the USDA**

Condition: The City's audit for the year ended June 30, 2005 was not submitted to the USDA within the 150 days after fiscal year end as required by USDA but was filed timely by December 31, 2005 with the Office of the Louisiana Legislative Auditor as required by Louisiana Statute.

Corrective action planned: The City will request the audit firm to begin its audit earlier in the fall to ensure compliance with the earlier filing requirements of the USDA. Also, the City will monitor the audit progress to ensure compliance with the USDA filing requirement.

City of Tallulah
Corrective Action Plan for Auditor's Current Year Findings
June 30, 2005

<ins>**Person responsible for the above corrective actions:**</ins>

Gerald Odom, City Clerk
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Management Letter

Board of Commissioners
City of Tallulah
Tallulah, Louisiana

In planning and performing our audit of the financial statements of the City of Tallulah, for the year ended June 30, 2005, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated December 28, 2005 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

05-M1 City of Tallulah vs. Morgan Watson

Comment: In the fall of 2000, the City of Tallulah engaged Morgan Watson and Mel-Jordan-Lace, Inc. to perform the services which would result in a map of the boundaries of the City to be used for redistricting purposes. The City paid Morgan Watson the sum of $60,000 for the services. In August, 2001, the City learned that Mr. Watson had sub-contracted the project out to Messinger and Associates, but did not pay the firm for their services. As a result, the City had to pay an additional $43,000 to Messinger and Associates in order to receive the completed map. The City filed suit against Morgan Watson and Mel-Jordan-Lace, Inc., on December 21, 2001, requesting reimbursement of the $60,000.

Recommendation: The City, in conjunction with the Madison Parish District Attorney, should continue to aggressively pursue the lawsuit against Morgan Watson to recover funds which the defendant owes the City.

Management's response: Mayor Theodore Lindsey is currently in discussions with the District Attorney and other attorneys concerning further legal action to take against Mr. Watson to recover funds he owes the City.

* * * * *

Also included are management's responses to our current-year management letter items. We have performed no audit work to verify the content of the responses.

Immediately following this letter is the Status of Prior Management Letter Item. This information has not been audited by Allen, Green & Williamson, LLP, and no opinion is expressed. However, we did follow-up on the prior management letter item and performed procedures to access the reasonableness of the Status of Prior Management Letter Item prepared by the auditee, and we would report, as a current-year management letter item which Allen, Green & Williamson, LLP, concludes the Status of Prior Management Letter Item materially misrepresents the status of any prior management letter item.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not reveal all weaknesses in policies and procedures that may exist.

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

Allen, Green & Williamson LLP

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana
December 28, 2005

City of Tallulah
Status of Prior Management Letter Items
June 30, 2005

04-M1 Yield on Investments

Comment: The City has funds invested in low interest yielding bank accounts, sometimes as low as 2/10 of one percent.

Recommendation: The City should investigate other possible investments in which to place funds in which the rate of return on investment is greater than that now being received from bank accounts.

Management's response: The City as of September 2004 has its long term debt reserve funds invested in the Money Market. Instead, due to the efforts of Raymond James Financial Services, Inc., the City's debt service funds have been repositioned to match the yield of the underlying bond issue. The current yield rates of this money are in excess of 4.0 percent.

04-M2 City of Tallulah vs. Morgan Watson

Comment: In the fall of 2000, the City of Tallulah engaged Morgan Watson and Mel-Jordan-Lace, Inc. to perform the services which would result in a map of the boundaries of the City to be used for redistricting purposes. The City paid Morgan Watson the sum of $60,000 for the services. In August, 2001, the City learned that Mr. Watson had sub-contracted the project out to Messinger and Associates, but did not pay the firm for their services. As a result, the City had to pay an additional $43,000 to Messinger and Associates in order to receive the completed map. The City filed suit against Morgan Watson and Mel-Jordan-Lace, Inc., on December 21, 2001, requesting reimbursement of the $60,000.

Recommendation: The City, in conjunction with the Madison Parish District Attorney, should continue to aggressively pursue the lawsuit against Morgan Watson to recover funds which the defendant owes the City.

Management's response: Mayor Theodore Lindsey is currently in discussions with the District Attorney and other attorneys concerning further legal action to take against Mr. Watson to recover funds he owes the City.
See current-year management item 05-M1.

04-M3 Issuance of 1099's

Comment: The City is not issuing 1099's to all individuals as defined by IRS laws and regulations.

Recommendation: The City should ensure that all individuals as defined by IRS laws and regulations receive a 1099 for monies received from the City.

Management's response: The City Clerk has arranged with managers that only professionals or businesses be contracted to do services of any kind for the City. All other payees receive payroll checks, thereby greatly reducing the need for the issuance of be a few 1099's.

(Continued)

City of Tallulah
Status of Prior Management Letter Items
June 30, 2005

04-M4 Water Fund Revenues

Comment: Bond covenants require that the City fix and maintain rates and collect charges for services and facilities to be rendered by the System sufficient to provide for the payment of the reasonable and necessary expenses of operating and maintaining the System, to provide for the payment of the Bonds, together with interest thereon, and all other obligations or indebtedness payable out of the revenues of the System, to provide a reserve for the payment of principal and interest on the Bonds and to provide a reasonable depreciation and contingency fund to care for extensions, additions, improvements, renewals and replacements necessary to properly operate the System.

Recommendation: The City should evaluate revenues based on current fees received for water and sewer fees and make the necessary adjustments to assure maintaining adequate revenues to meet all bond covenants requires at present and for the future.

Management's response: The City has adopted new sewer rates which will become effective as of February 2005. Also the City is examining an increase in water fees to cover increasing cost of operations of the water system

(Concluded)