

TOWN OF EROS, LOUISIANA

FINANCIAL REPORT

December 31, 2004

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

Release Date 7-6-05**HILL, INZINA & COMPANY**

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HILL, INZINA & COMPANY

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Mayor and Board of Aldermen
Town of Eros, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Eros, Louisiana (the "Town"), as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of December 31, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2005 on our consideration of the Town'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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. Management's discussion and analysis and the budgetary comparison schedule, presented as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the required supplementary information and express no opinion on it. The other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The other supplementary 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.

Hill, Morgan & Co.

June 2, 2005

REQUIRED SUPPLEMENTARY INFORMATION (Part 1 of 2)

TOWN OF EROS
Eros, Louisiana
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004

Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending. Governmental funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's operations. Governmental fund information helps to determine whether there are more or fewer financial resources that are available to be spent in the near future. The differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds are reported in a reconciliation at the bottom of the fund financial statements.

Business-type activities funds are reported in the same way that the activities are reported in the Statement of Net Assets and the Statement of Activities.

**COMPARATIVE ANALYSIS OF
 FINANCIAL DATA**

The Town's total net assets increased by \$485,303 during 2004. The increase in net assets is primarily due to the village receiving federal grant funds in the amount of \$526,806 to make improvements to the town's water system. The following presents an analysis of net assets and changes in net assets of the Town's governmental and business-type activities:

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$152,002	\$177,899	\$27,904	\$62,700	\$179,906	\$240,599
Capital assets	45,653	316,639	1,249,940	434,684	1,295,593	751,323
Total assets	<u>197,655</u>	<u>494,538</u>	<u>1,277,844</u>	<u>497,384</u>	<u>1,475,499</u>	<u>991,922</u>
Liabilities						
Current liabilities	61,041	63,538	7,496	6,725	68,537	70,263
Long-term liabilities	NONE	NONE	NONE	NONE	NONE	NONE
Total liabilities	<u>61,041</u>	<u>63,538</u>	<u>7,496</u>	<u>6,725</u>	<u>68,537</u>	<u>70,263</u>
Net Assets						
Invested in capital assets	45,653	316,639	1,249,940	434,684	1,295,593	751,323
Unrestricted	90,961	114,361	20,408	55,975	111,369	170,336
Total net assets	<u>136,614</u>	<u>431,000</u>	<u>1,270,348</u>	<u>490,659</u>	<u>1,406,962</u>	<u>921,659</u>

TOWN OF EROS
Eros, Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004

Our discussion and analysis of Town of Eros' (hereafter referred to as the Town) financial performance provides an overview of the town's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Town's basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Town as a whole. Fund financial statements for governmental activities provide information on how the general activities of the Town are financed in the short term as well as what remains for future spending. Fund financial statements report the Town's operations in more detail than the government-wide statements.

Reporting the Town as a Whole - The Statement of Net Assets and the Statement of Activities

Our analysis of the Town as a whole is reported in the Statement of Net Assets and the Statement of Activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most businesses. 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 Town's *net assets* and the changes in them. Net assets - the difference between assets (what the Town owns) and liabilities (what the Town owes) is a way to measure the financial position of the Town. Over time, increases or decreases in the Town's net assets are an indicator of whether the Town's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the Town is divided into two kinds of activities:

Governmental activities - all of the Town's governmental services are reported here including the police department, fire department, community development, and general administration.

Business-type activities - the Town's water and sewer system is reported here.

Reporting the Town's Funds - Fund Financial Statements

The fund financial statements provide more detailed information about the Town's funds. The 2001 and 2002 LCDBG Capital Projects Funds were required to be established by the federal grantor. The Eros Volunteer Fire Department Special Revenue Fund and the Utilities Enterprise Fund were established by the Town to help it control and manage money for particular purposes. The Town's two kinds of funds - governmental and business-type funds use different accounting methods.

TOWN OF EROS
Eros, Louisiana
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2004	2003	2004	2003	2004	2003
Program revenues						
Charges for services	\$17,969	\$25,110	\$33,319	\$32,784	\$51,288	\$57,894
Operating grant	529,326	214,668	14,771	18,247	544,097	232,915
General revenues and transfers						
Sales taxes	10,261	11,533			10,261	11,533
Franchise taxes	4,554	5,378			4,554	5,378
Beer taxes	54	82			54	82
Occupational licenses	16,698	15,176			16,698	15,176
Investment earnings	1,281	1,790	815	857	2,096	2,647
Other	128				128	
Transfers	(806,634)		806,634			
Total revenue and transfers	(226,363)	273,737	855,539	51,888	629,176	325,625
Program expenses						
General government	48,552	43,909			48,552	43,909
Public safety - police	16,969	16,387			16,969	16,387
Public safety - fire	2,502	1,130			2,502	1,130
Water and sewer			75,850	77,510	75,850	77,510
Total expenses	68,023	61,426	75,850	77,510	143,873	138,936
Change in net assets	(294,386)	212,311	779,689	(25,622)	485,303	186,689
Net assets - beginning	431,000	218,689	490,659	516,281	921,659	734,970
Net assets - ending	<u>\$136,614</u>	<u>\$431,000</u>	<u>\$1,270,348</u>	<u>\$490,659</u>	<u>\$1,406,962</u>	<u>\$921,659</u>

The town's total revenues increased \$303,551 in 2004 primarily due to receiving federal grants for \$526,806.

Governmental Funds

Total revenue and transfers from governmental activities decreased \$500,100 due to the transfer of the water system improvement project accounted for in governmental funds being transferred to the business-type activities fund during 2004. Expenses remained fairly constant.

Business-Type Activities

As discussed above, the Town's revenue and transfers from business-type activities increased due to the transfer of the water system improvement project from governmental activities to business-type activities. Expenses remained fairly constant.

TOWN OF EROS
Eros, Louisiana
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004

OVERALL FINANCIAL POSITION

The Town's net assets increased \$485,303 as a result of this year's operations. Unrestricted net assets (those assets available to finance the daily operations of the Town) were \$111,369 at year end. The amount invested in capital assets was \$1,295,593 at year end.

TOWN'S FUNDS

At the end of the year, the Town's General Fund reported an unreserved fund balance of \$84,119. The decrease in unreserved fund balance for 2004 was \$6,763. The Eros Volunteer Fire Department Special Revenue Fund had an unreserved fund balance of \$6,842 at year end. The decrease in unreserved fund balance of this fund was \$16,636 primarily due to a \$15,000 transfer to the General Fund to purchase a police car. The Town of Eros no longer operates a fire department and the funds in the Eros Volunteer Fire Department Special Revenue Fund are being used to fund public safety expenditures of the General Fund such as the police department expenditures. The Town anticipates closing the Eros Volunteer Fire Department Special Revenue Fund during the year ending December 31, 2005 and transferring the remaining assets to the General Fund. The 2001 LCDBG and 2002 LCDBG capital projects funds will be closed during 2005 due to the completion of the projects accounted for in these funds. The Utilities Enterprise Fund reported unrestricted net assets of \$20,408 at year end. The increase in net assets was \$779,689 for 2004 due to the transfer of net assets from governmental activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town amended its General Fund budget two times during the year. At year end, actual revenues were \$1,475 less than budgeted revenues and actual expenditures were \$8,062 less than budgeted expenditures. The Town did not adopt a budget for the Eros Volunteer Fire Department Special Revenue Fund for 2004. The Town prepares its General Fund budget on the modified accrual basis of accounting.

CAPITAL ASSETS

At the end of the year, the Town had capital assets (net of accumulated depreciation) totaling \$1,295,593. Capital assets include the water and sewer system and improvements, construction in progress, land, buildings, equipment and vehicles, costing \$500 or more. The Town's construction in progress decreased \$586,769 during the year due to the completion of improvement projects to the town's water system. The Town also purchased a new police car, tractor, mower, and grinder pump during 2004. Additional information about the Town's capital assets is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town prepared its 2005 General Fund budget on the assumption that revenues and expenditures will remain fairly constant next year. The Town does anticipate a decrease in total revenues and expenditures during 2005 due to the completion of water system improvement projects. The Town expects the revenues of the Utilities Enterprise Fund to increase due to a water rate increase that went into effect during August 2004.

BASIC FINANCIAL STATEMENTS

TOWN OF EROS, LOUISIANA

STATEMENT OF NET ASSETS

December 31, 2004

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash	\$ 101,924	\$ 61,202	\$ 163,126
Investments	6,839	3,891	10,730
Receivables	3,251	2,799	6,050
Internal balances	39,988	(39,988)	-
Capital assets:			
Land	-	121	121
Construction in progress	-	254,018	254,018
Other capital assets, net of depreciation	<u>45,653</u>	<u>995,801</u>	<u>1,041,454</u>
Total assets	<u>\$ 197,655</u>	<u>\$ 1,277,844</u>	<u>\$ 1,475,499</u>
LIABILITIES			
Accounts payable	\$ 60,077	\$ 536	\$ 60,613
Payroll taxes payable	964	-	964
Customers' deposits	<u>-</u>	<u>6,960</u>	<u>6,960</u>
Total liabilities	<u>\$ 61,041</u>	<u>\$ 7,496</u>	<u>\$ 68,537</u>
NET ASSETS			
Invested in capital assets	\$ 45,653	\$ 1,249,940	\$ 1,295,593
Unrestricted	<u>90,961</u>	<u>20,408</u>	<u>111,369</u>
Total net assets	<u>\$ 136,614</u>	<u>\$ 1,270,348</u>	<u>\$ 1,406,962</u>
Total liabilities and net asset	<u>\$ 197,655</u>	<u>\$ 1,277,844</u>	<u>\$ 1,475,499</u>

See notes to financial statements.

TOWN OF EROS, LOUISIANA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

			<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
Functions/Programs:		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
Current:			<u>Contributions</u>	<u>Contributions</u>
Governmental activities:				
General government	\$ 48,552	\$ 4,188	\$ 2,520	\$ -
Public safety - police	16,969	13,781	-	-
Public safety - fire	2,502	-	-	-
Community development	-	-	-	526,806
Total governmental activities	\$ 68,023	\$ 17,969	\$ 2,520	\$ 526,806
Business-type activities:				
Water and sewer service	<u>75,850</u>	<u>33,319</u>	<u>14,771</u>	<u>-</u>
Total government	<u>\$ 143,873</u>	<u>\$ 51,288</u>	<u>\$ 17,291</u>	<u>\$ 526,806</u>
General revenues:				
Sales taxes				
Franchise taxes				
Beer taxes				
Occupational licenses				
Unrestricted investment earnings				
Miscellaneous				
Operating transfers				
Transfers of capital assets				
Total general revenues and transfers				
Changes in net assets				
Net assets - beginning				
Net assets - ending				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
\$ (41,844)		\$ (41,844)
(3,188)		(31 888)
(2,502)		(2,502)
<u>526,806</u>		<u>526,806</u>
\$ 479,272		\$ 479,272
<u>-</u>	<u>\$ (27,760)</u>	<u>\$ (27,760)</u>
<u>\$ 479,272</u>	<u>\$ (27,760)</u>	<u>\$ 451,512</u>
\$ 10,261	\$ -	\$ 10,261
4,554	-	4,554
54	-	54
16,698	-	16,698
1,281	815	2,096
128	-	128
34,153	(34,153)	-
<u>(840,787)</u>	<u>840,787</u>	<u>-</u>
<u>\$ (773,658)</u>	<u>\$ 807,449</u>	<u>\$ 33,791</u>
\$ (294,386)	\$ 779,689	\$ 485,303
<u>431,000</u>	<u>490,659</u>	<u>921,659</u>
<u>\$ 136,614</u>	<u>\$ 1,270,348</u>	<u>\$ 1,406,962</u>

TOWN OF EROS, LOUISIANA

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2004

	General <u>Fund</u>	Eros Volunteer Fire Department Special Revenue <u>Fund</u>	2001 LCDBG Capital Projects <u>Fund</u>	2002 LCDBG Capital Projects <u>Fund</u>	Total Governmental <u>Funds</u>
ASSETS					
Cash	\$ 76,264	\$ 3	\$ -	\$ 25,657	\$ 101,924
Investments	-	6,839	-	-	6,839
Receivables	3,251	-	-	-	3,251
Due from other funds	<u>5,836</u>	<u>-</u>	<u>32,319</u>	<u>1,833</u>	<u>39,988</u>
Total assets	<u>\$ 85,351</u>	<u>\$ 6,842</u>	<u>\$ 32,319</u>	<u>\$ 27,490</u>	<u>\$ 152,002</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 268	\$ -	\$ 32,319	\$ 27,490	\$ 60,077
Payable taxes payable	<u>964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>964</u>
Total liabilities	\$ 1,232	\$ -	\$ 32,319	\$ 27,490	\$ 61,041
Fund balances - unreserved and undesignated					
	<u>84,119</u>	<u>6,842</u>	<u>-</u>	<u>-</u>	<u>90,961</u>
Total liabilities and fund balances	<u>\$ 85,351</u>	<u>\$ 6,842</u>	<u>\$ 32,319</u>	<u>\$ 27,490</u>	<u>\$ 152,002</u>

See notes to financial statements.

TOWN OF EROS, LOUISIANA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004**

	Eros Volunteer 2001 LCDBG 2002 LCDBG				
	General	Fire Department	Capital	Capital	Total
	Fund	Special Revenue	Projects	Projects	Governmental
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
Revenues:					
Taxes:					
Sales	\$ 10,261	\$ -	\$ -	\$ -	\$ 10,261
Franchise	4,554	-	-	-	4,554
Beer	54	-	-	-	54
Licenses and permits	16,698	-	-	-	16,698
Intergovernmental:					
Federal grant	-	-	59,338	467,468	526,806
State grant	2,520	-	-	-	2,520
Fines	13,344	-	-	-	13,344
Rent	890	-	-	-	890
Fees and charges	3,298	-	-	-	3,298
Investment earnings	1,040	241	-	-	1,281
Miscellaneous	566	-	-	-	566
Total revenues	<u>\$ 53,225</u>	<u>\$ 241</u>	<u>\$ 59,338</u>	<u>467,468</u>	<u>\$ 580,272</u>
Expenditures:					
Current:					
General government:					
Personal services	\$ 26,559	\$ -	\$ -	\$ -	\$ 26,559
Operating services	12,579	-	-	-	12,579
Materials and supplies	6,915	-	-	-	6,915
Other	894	-	-	-	894
Public safety:					
Personal services	8,038	-	-	-	8,038
Operating services	6,990	-	-	-	6,990
Materials and supplies	-	1,877	-	-	1,877
Capital outlay	13,013	-	91,658	469,301	573,972
Total expenditures	<u>\$ 74,988</u>	<u>\$ 1,877</u>	<u>\$ 91,658</u>	<u>\$ 469,301</u>	<u>\$ 637,824</u>

(continued)

TOWN OF EROS, LOUISIANA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)
For the Year Ended December 31, 2004**

	<u>General Fund</u>	<u>Eros Volunteer Fire Department Special Revenue Fund</u>	<u>2001 LCDBG Capital Projects Fund</u>	<u>2002 LCDBG Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Excess (deficiency) of revenues over expenditures	\$(21,763)	\$(1,636)	\$(32,320)	\$(1,833)	\$(57,552)
Other financing sources (uses):					
Operating transfers in (out)	<u>15,000</u>	<u>(15,000)</u>	<u>32,320</u>	<u>1,833</u>	<u>34,153</u>
Net changes in fund balances	\$(6,763)	\$(16,636)	\$ -	\$ -	\$(23,399)
Fund balances - beginning	<u>90,882</u>	<u>23,478</u>	<u>-</u>	<u>-</u>	<u>114,360</u>
Fund balances - ending	<u>\$ 84,119</u>	<u>\$ 6,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,961</u>

See notes to financial statements.

TOWN OF EROS, LOUISIANA

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2004**

Total fund balances - governmental funds balance sheet \$ 90,961

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

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. 45,653

Total net assets of governmental activities - government-wide
statement of net assets \$ 136,614

See notes to financial statements.

TOWN OF EROS, LOUISIANA

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

December 31, 2004

Net changes in fund balances - governmental funds \$(23,399)

Amounts reported for governmental activities in statement of
activities are different because:

Governmental funds report capital outlay 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
capital outlay (\$573,972) exceeded depreciation expense (\$4,172) in the
current period.

569,800

Transfer of capital assets from governmental activities to business-type
activities.

(840,787)

Changes in net assets of governmental activities - government-wide
statement of activities

\$(294,386)

See notes to financial statements.

TOWN OF EROS, LOUISIANA

STATEMENT OF NET ASSETS - PROPRIETARY FUND - UTILITIES ENTERPRISE FUND
December 31, 2004

ASSETS

Current assets:	
Cash	\$ 61,202
Investments	3,891
Accounts receivable	2,799
Noncurrent assets:	
Land	121
Construction in progress	254,018
Other capital assets, net of accumulated depreciation	<u>995,801</u>
Total assets	<u>\$ 1,317,832</u>

CURRENT LIABILITIES

Accounts payable	\$ 536
Due to other funds	39,988
Customers' deposits	<u>6,960</u>
Total current liabilities	<u>\$ 47,484</u>

NET ASSETS

Invested in capital assets	\$ 1,249,940
Unrestricted	<u>20,408</u>
Total net assets	<u>\$ 1,270,348</u>
Total current liabilities and net assets	<u>\$ 1,317,832</u>

See notes to financial statements.

TOWN OF EROS, LOUISIANA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUND - UTILITIES ENTERPRISE FUND**

For the Year Ended December 31, 2004

Operating revenues:	
Water and sewer sales	\$ 32,844
Connection fees and meter charges	<u>475</u>
Total operating revenues	<u>\$ 33,319</u>
Operating expenses:	
Gas and oil	\$ 1,073
Repairs and maintenance	5,157
Utilities	8,363
Supplies	2,384
Insurance	1,973
Salaries and payroll taxes	14,737
Fees and dues	1,490
Advertising	36
Depreciation	40,301
Other	<u>337</u>
Total operating expenses	<u>\$ 75,851</u>
Operating income (loss)	<u>\$ (42,532)</u>
Non-operating revenues:	
Interest	\$ 816
State grant	<u>14,771</u>
Total non-operating revenues	<u>\$ 15,587</u>
Income (loss) before contributions and transfers	\$(26,945)
Capital contributions	840,787
Transfers out	<u>(34,153)</u>
Change in net assets	\$ 779,689
Net assets - beginning	<u>490,659</u>
Net assets - ending	<u>\$ 1,270,348</u>

See notes to financial statements.

TOWN OF EROS, LOUISIANA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND -
UTILITIES ENTERPRISE FUND**

For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 33,099
Customer deposit receipts, net	687
Payments to suppliers	(20,728)
Payments to employees	(12,072)
Net cash provided by operating activities	<u>\$ 986</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	<u>\$(14,771)</u>
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CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State grant	<u>\$ 14,771</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest	\$ 815
Purchase of investments	(104)
Net cash provided by investing activities	<u>\$ 711</u>

Net increase in cash	\$ 1,697
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Cash - beginning	<u>59,505</u>
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Cash - ending	<u>\$ 61,202</u>
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(continued)

TOWN OF EROS, LOUISIANA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND -
UTILITIES ENTERPRISE FUND (Continued)
For the Year Ended December 31, 2004**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income (loss)	\$(42,532)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	40,301
(Increase) decrease in accounts receivable	(219)
(Increase) decrease in due to other funds	2,665
Increase (decrease) in customers' deposits	687
(Increase) decrease in accounts payable	<u>84</u>
Net cash provided by operating activities	<u>\$ 986</u>

NON-CASH CAPITAL FINANCING ACTIVITIES

Capital assets of \$840,787 were contributed by the Capital Projects Funds.

TOWN OF EROS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2004

Note 1. Organization and Summary of Significant Accounting Policies

Town of Eros, Louisiana (the "Town"), operates under a mayor-board of aldermen form of government in accordance with the provisions of the Lawrason Act. Citizens elect the mayor and five aldermen whose terms expired on December 31, 2004. The aldermen receive a \$50 per diem for attending each regular and special meeting. The Town provides general administrative services, public safety (police and fire), and public improvements.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this statement, the Town is considered a primary government, as it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, *fiscally independent* means that the Town may, without approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt.

The Town has determined that it has no component units.

The more significant of the Town's accounting policies are described below:

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole. The statements distinguish governmental activities, generally supported by taxes and intergovernmental revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

NOTES TO FINANCIAL STATEMENTS

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report licenses, permits, fees, fines, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental and proprietary funds. All individual governmental and proprietary funds are reported in separate columns.

Basis of Accounting, Measurement Focus, and Financial Statement Presentation:

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual are sales taxes, franchise taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statement includes revenues and expenses related to primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues are classified as non-operating in the financial statements.

Fund Types and Major Funds:

The Town reports the following major governmental funds:

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

Special Revenue Fund - accounts for financial resources used in providing fire protection to the residents of the Town.

Capital Projects Funds - account for grant proceeds used for improvements to the Town's water system.

The Town reports the following major proprietary fund:

Enterprise Fund - accounts for the operations of the Town's water and sewer systems.

NOTES TO FINANCIAL STATEMENTS

Budgets and Budgetary Accounting:

The Board of Aldermen adopted the annual budget for the General Fund at the December 2003 board meeting . The annual budget was prepared in accordance with the basis of accounting utilized by the fund. The budget is established and controlled by the mayor and board of aldermen at the object level of expenditure. The budgetary comparison schedule included as supplementary information in the accompanying financial statements includes the original and amended budgeted amounts. All annual appropriations lapse at the end of each fiscal year.

Grant periods may differ from the Town's fiscal year; therefore, the Town did not budget for all grant monies received and expended by the Capital Projects Funds as budgetary control is maintained on an individual grant basis.

The town was not legally required to and did not adopt a budget for the Eros Volunteer Fire Department Special Revenue Fund for the year ended December 31, 2004.

Encumbrances:

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town .

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Investments:

Cash includes amounts in demand deposits, interest-bearing demand deposits, and petty cash. Under state law, the Town may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

State law also allows the Town to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

NOTES TO FINANCIAL STATEMENTS

If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents. As of December 31, 2004, the Town's investments consist of nonnegotiable certificates of deposit with original maturities that exceeded 90 days and are reported in the accompanying financial statements at cost, which approximates market value.

Receivables:

Significant receivables include franchise taxes, sales taxes, and amounts due from customers for utility services.

Uncollectible Allowance:

The statements contain no provision for uncollectible accounts. Town management is of the opinion that such allowance would be immaterial in relation to the financial statements taken as a whole.

Interfund Transactions:

Activity between funds that are representative of lending/borrowing arrangements and other miscellaneous receivables/payables outstanding at the end of the fiscal year are reported as due to/from other funds (i.e. the current portion of interfund loans) in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Transfers and payments within the reporting entity that are substantially for the purposes of subsidizing operating functions or funding capital projects and asset acquisitions are reported as operating transfers between funds of the reporting entity.

Interfund transactions are eliminated in the government-wide financial statement of activities within the segregated governmental and business-type activities. Only interfund transactions between governmental and business-type activities appear in the government-wide statement of activities.

NOTES TO FINANCIAL STATEMENTS

Capital Assets and Depreciation:

Capital assets, which include property, plant, equipment, and infrastructure (e.g., water and sewer systems), with useful lives of more than one year, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All other infrastructure assets (e.g., streets, drainage systems, and similar items) are considered fully depreciated by the Town and are not included in the government-wide financial statements. The Town's management has opted not to retroactively report general infrastructure assets as there is no debt associated with these assets. Capital assets are recorded at historical or estimated historical cost. Donated assets are stated at fair value on the date of donation. Approximately 94 percent of the Town's capital assets have been capitalized at historical cost and the remaining six percent have been capitalized at estimated cost based on the historical cost of similar assets. Capital assets of the business-type activities are comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in its respective fund financial statements.

The Town maintains a threshold level of \$500 or more for capitalizing capital assets. The costs of normal maintenance and repairs not adding to an asset's value or materially extending its useful life are not capitalized. Upon disposition of capital assets, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Major outlays for capital assets and construction are capitalized as projects are constructed. No interest has been incurred in connection with the construction during the year ended December 31, 2004.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Water and sewer systems and improvements	25 years
Buildings and improvements	25 - 40 years
Vehicles and equipment	5 - 15 years

NOTES TO FINANCIAL STATEMENTS

Accumulated Compensated Absences:

Allowable annual vacation and sick leave is prescribed by municipal ordinance, based on length of continuous employment by the Town, accrued on an employment anniversary basis, and accrued to specified maximums.

There were no compensated absences resulting from unused vacation at the end of the fiscal year. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Compensated absences are paid from the fund responsible for the employee's compensation.

Equity Classifications:

In the government-wide and proprietary fund financial statements, equity is classified as net assets and classified into three components:

1. Invested in capital assets - consists of capital assets, net of accumulated depreciation.
2. Unrestricted - consists of all other assets.

In the fund financial statements, governmental fund balances are classified as unreserved and undesignated as all amounts are available for appropriation and not legally restricted for specified purposes.

Revenue Recognition - Sales/Use Taxes:

Sales/use taxes collected and held by other governments at year end on behalf of the Town and remitted to the Town within 60 days after December 31 for preceding months are recognized as revenue. The sales/use taxes are collected by Jackson Parish Sales Tax Collection Agency and remitted to the Town net of the costs of collection.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash and Deposits

The following is a summary of cash and deposits as of December 31, 2004:

Demand deposits	\$ 25,660
Interest-bearing demand deposits	137,411
Petty cash	55
Investments	<u>10,730</u>
	<u>\$ 173,856</u>

These deposits are stated at cost, which approximates market. Under state law, the deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held by the Town or its agent in the name of the Town in a holding or custodial bank that is mutually acceptable to both parties.

As of December 31, 2004, the Town had \$185,589 in deposits (collected bank balances). These deposits were secured from risk by \$136,605 of federal deposit insurance (GASB Category 1) and \$48,984 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized under the provisions of GASB Statement No. 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 Town that the fiscal agent bank has failed to pay deposited funds upon demand.

There were no repurchase or reverse repurchase agreements as of December 31, 2004.

NOTES TO FINANCIAL STATEMENTS

Note 3. Receivables

The following is a summary of receivables as of December 31, 2004:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Taxes:			
Franchise	\$ 1,373	\$ -	\$ 1,373
Sales	919	-	919
Accounts	-	2,799	2,799
Other	<u>959</u>	<u>-</u>	<u>959</u>
	<u>\$ 3,251</u>	<u>\$ 2,799</u>	<u>\$ 6,050</u>

Note 4. Interfund Balances and Transfers

A summary of interfund balances as of December 31, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General	Enterprise	\$ 5,836
Capital Projects	Enterprise	<u>34,152</u>
		<u>\$ 39,988</u>

The amount due to the General Fund is for payroll taxes of the Enterprise Fund paid by the General Fund. The amounts due to the Capital Projects Funds from the Enterprise Fund is the balance due on contracts for the construction of the water system improvements. As of December 31, 2004, the Town had made application for a federal grant to pay the remaining amounts due on the contracts. All interfund balances are expected to be repaid within one year from the date of the financial statements.

Operating transfers of \$34,153 were made from the Enterprise Fund to the Capital Projects Funds to meet the additional funding requirements of the community development block grants.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets and Depreciation

Capital assets and depreciation activity as of and for the year ended December 31, 2004 for the Town is as follows:

	Balance - January 1, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance - December 31, <u>2004</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 279,827	\$ 560,960	\$ 840,787	\$ -
Capital assets being depreciated:				
Buildings and improvements	\$ 53,270	\$ -	\$ -	\$ 53,270
Vehicles and equipment	69,781	13,014	12,022	70,773
Total capital assets being depreciated	\$ 123,051	\$ 13,014	\$ 12,022	\$ 124,043
Less accumulated depreciation:				
Buildings and improvements	\$(23,836)	\$(1,422)	\$ -	\$(25,258)
Vehicles and equipment	(62,404)	(2,750)	(12,022)	(53,132)
Total accumulated depreciation	\$(86,240)	\$(4,172)	\$(12,022)	\$(78,390)
Capital assets, net of accumulated depreciation	\$ 36,811	\$ 8,842	\$ -	\$ 45,653

NOTES TO FINANCIAL STATEMENTS

	Balance - January 1, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance - December 31, <u>2004</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 121	\$ -	\$ -	\$ 121
Construction in progress	-	254,018	-	254,018
Total assets not being depreciated	<u>\$ 121</u>	<u>\$ 254,018</u>	<u>\$ -</u>	<u>\$ 254,139</u>
Capital assets being depreciated:				
Water and sewer systems and improvements	\$ 1,026,295	\$ 586,769	\$ -	\$ 1,613,064
Equipment	11,987	14,771	-	26,758
Total capital assets being depreciated	<u>\$ 1,038,282</u>	<u>\$ 601,540</u>	<u>\$ -</u>	<u>\$ 1,639,822</u>
Less accumulated depreciation:				
Water and sewer systems and improvements	\$(595,399)	\$(37,975)	\$ -	\$(633,374)
Equipment	(8,321)	(2,326)	-	(10,647)
Total accumulated depreciation	<u>\$ 603,720</u>	<u>\$ 40,301</u>	<u>\$ -</u>	<u>\$ 644,021</u>
Capital assets, net of accumulated depreciation	<u>\$ 434,562</u>	<u>\$ 561,239</u>	<u>\$ -</u>	<u>\$ 995,801</u>

Depreciation expense as of and for the year ended December 31, 2004 was charged to the following governmental functions:

General government	\$ 1,605
Public safety - police	1,942
Public safety - fire	<u>625</u>
Total depreciation expense	<u>\$ 4,172</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Contingencies and Risk Management

The Town participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of December 31, 2004 may be impaired. In the opinion of Town management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for to reduce the risk of loss from property damage or liability claims. There were no significant reductions in the insurance coverage during the fiscal year. Settlement amounts have not exceeded insurance

REQUIRED SUPPLEMENTARY INFORMATION (Part 2 of 2)

TOWN OF EROS, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - GENERAL FUND
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Sales	\$ 11,000	\$ 10,500	\$ 10,261	\$ (239)
Franchise	4,000	5,500	4,554	(946)
Beer	80	50	54	4
Licenses and permits	14,000	16,000	16,698	698
Intergovernmental	-	-	2,520	2,520
Fines	17,000	15,000	13,344	(1,656)
Rent	2,815	1,000	890	(110)
Fees and charges	2,050	2,000	3,298	1,298
Investment earnings	1,058	1,000	1,040	40
Miscellaneous	500	3,650	566	(3,084)
Total revenues	<u>\$ 52,503</u>	<u>\$ 54,700</u>	<u>\$ 53,225</u>	<u>\$ (1,475)</u>
Expenditures:				
Current:				
General government:				
Personal services	\$ 24,900	\$ 27,900	\$ 26,559	\$ 1,341
Operating services	21,850	13,800	12,579	1,221
Material and supplies	3,540	7,800	6,915	885
Other	4,000	2,000	894	1,106
Public safety - police:				
Personal services	8,800	8,800	8,038	762
Operating services	6,740	8,650	6,989	1,661
Materials and supplies	100	100	-	100
Other	300	14,000	-	14,000
Capital outlay	-	-	13,014	(13,014)
Total expenditures	<u>\$ 70,230</u>	<u>\$ 83,050</u>	<u>\$ 74,988</u>	<u>\$ 8,062</u>

(continued)

TOWN OF EROS, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - GENERAL FUND

(Continued)

For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Excess (deficiency) of revenues over expenditures	\$(17,727)	\$(28,350)	\$(21,763)	\$ 6,587
Other financing sources (uses):				
Operating transfers in (out)	<u>-</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Net change in fund balance	\$(17,727)	\$(13,350)	\$(6,763)	\$ 6,587
Fund balance - beginning	<u>88,277</u>	<u>90,139</u>	<u>90,882</u>	<u>743</u>
Fund balance - ending	<u>\$ 70,550</u>	<u>\$ 76,789</u>	<u>\$ 84,119</u>	<u>\$ 7,330</u>

OTHER SUPPLEMENTARY INFORMATION

TOWN OF EROS, LOUISIANA

SCHEDULE OF ALDERMEN'S COMPENSATION

For the Year Ended December 31, 2004

The schedule of per diem paid to the aldermen is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Per diem paid to the aldermen is included in the general government personal services expenditures of the General Fund. The aldermen receive a per diem of \$50 for attending each regular and special meeting.

Daniel Bailey	\$ 650
Sue Bailey	650
Dorothy Costin	650
Robert Lewis	650
Candace Myers	<u>600</u>
 Total per diem	 <u>\$ 3,200</u>

TOWN OF EROS, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development/ Louisiana Division of Administration/ Community Development Block Grant	14.228	588715	467,468
Community Development Block Grant	14.228	588721	<u>59,338</u>
Total expenditures of federal awards			<u>\$ 526,806</u>

See note to schedule of expenditures of federal awards.

TOWN OF EROS, LOUISIANA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2004

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Town and is being presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the financial statements.

HILL, INZINA & COMPANY

INDEPENDENT AUDITOR'S 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 Board of Aldermen
Town of Eros, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Eros, Louisiana (the "Town"), as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 2, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 judgement, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a 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 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 the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Governmental Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2004-2.

This report is intended solely for the information and use of management, Board of Aldermen, 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.

Hill, Morgan & Co.

June 2, 2005

HILL, INZINA & COMPANY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and Board of Aldermen
Town of Eros, Louisiana

Compliance

We have audited the compliance of Town of Eros, Louisiana (the "Town"), 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 its major federal program for the year ended December 31, 2004. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town'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; 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 Town'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 on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Town 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 Town'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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 Town's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, Board of Aldermen, 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.

Hill, Dryden & Co.

June 2, 2005

TOWN OF EROS, LOUISIANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
WITH MANAGEMENT'S RESPONSE AND PLANNED CORRECTIVE ACTION
For the Year Ended December 31, 2004**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Eros, Louisiana (the "Town"), as of and for the year ended December 31, 2004, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 2, 2005. We conducted our audit 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; and the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit of the financial statements as of December 31, 2004 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

- a. 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*

Internal Control

Material Weaknesses ☒ Yes ☐ No Reportable Conditions ☒ Yes ☐ No

Compliance

Material to Financial Statements ☐ Yes ☒ No

- b. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Type of Opinion on Compliance for Major Program	Unqualified <input checked="" type="checkbox"/>	Qualified <input type="checkbox"/>
	Disclaimer <input type="checkbox"/>	Adverse <input type="checkbox"/>

Internal Control

Material Weaknesses ☒ Yes ☐ No Reportable Conditions ☒ Yes ☐ No

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?
☒ Yes ☐ No

- c. Identification of Major Program:

CFDA Number 14.228
Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs \$500,000
Is the auditee a 'low risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☒ No

Section II - Financial Statement Findings

2004-1 Inadequate Segregation of Duties (initial citing)

Criteria: Adequate segregation of duties is essential to a proper internal control structure.

Condition: The segregation of duties is inadequate to provide effective internal control.

Cause: The condition is due to economic and space limitations.

Effect: Not determined.

Recommendation: No action is recommended.

**Management's
response and
planned cor-
rective action:**

We concur in the finding, but it is not economically feasible nor does space allow for corrective action to be taken.

2004-2 Taxing Authority Pursuant to LA R.S. 33.2712

Criteria: Any incorporated municipality of the state is authorized to levy and collect a sales and use tax. Said tax shall be imposed by an ordinance of the governing body. However, the ordinance imposing such tax shall be adopted by the governing body only after the question of the imposition of such a tax shall have been submitted to the qualified electors of the municipality at an election to be conducted in accordance with the general election laws of the state, and the majority of those voting in said election shall have voted in favor of the adoption of such ordinance.

Condition: The Town is currently collecting a sales and use tax for which formal documentation was unavailable as to it being approved under the election laws of the state.

Cause: Due to various changes in management, current management is not sure as to if the tax was renewed through the proper legal channels upon its expiration in 1999.

Effect: The Town is exposed to legal ramifications of collecting an unauthorized tax.

Recommendation: The Town should promptly contact legal counsel.

**Management's
response and
planned cor-
rective action:**

We concur in the finding and will promptly contact legal counsel.

Section III - Federal Awards Finding

2004-1 Inadequate Segregation of Duties
(See 2004-1 in Section II.)

Program: Community Development Block Grant

Section IV - Management Letter

None issued.

TOWN OF EROS, LOUISIANA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended December 31, 2004**

Section I - Agreed-Upon Procedures

2003-1 Inadequate Supporting Documentation

Resolved.

Section II - Management Letter

None issued.