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VILLAGE OF NATCHEZ, LOUISIANA

FINANCIAL REPORT AS OF JUNE 30, 1999

AND FOR YEARS ENDED JUNE 30, 1999 AND 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 _____
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Eugene W. Fremaux II

Certified Public Accountant

TABLE OF CONTENTS

	EXHIBIT	SCHEDULE	PAGE
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	-	-	1
GENERAL PURPOSE FINANCIAL STATEMENTS			
Combined Balance Sheet - All Fund Types and Account Groups	A	-	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund Type - General and Special Fund Types	B	-	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP) And Actual - Governmental Fund Type - General and Special Fund Types	C	-	5
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type	D	-	6
Combined Statement of Cash Flows - Proprietary Fund Type	E	-	7
Notes to Financial Statements	-	-	8
FINANCIAL STATEMENTS OF INDIVIDUAL FUNDS AND ACCOUNT GROUPS			
General Fund:			
Balance Sheet	F-1	-	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP basis) and Actual	F-2	-	16
Special Revenue Funds:			
Combining Balance Sheet	G-1	-	18
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Funds	G-2	-	19
Louisiana Housing Finance Agency:			
Balance Sheet	G-3	-	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP basis) and Actual	G-4	-	21
Community Development Block Grant:			
Balance Sheet	G-5	-	22
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP basis) and Actual	G-6	-	23

TABLE OF CONTENTS

	EXHIBIT	SCHEDULE	PAGE
Enterprise Fund: Balance Sheet	H-1	-	24
Statement of Revenues, Expenditures and Changes in Retained Earnings - Budget (GAAP basis) and Actual	H-2	-	25
General Fixed Assets Account Group: Statement of General Fixed Assets (unaudited)	I-1	-	26
Statement of Changes in General Fixed Assets (unaudited)	I-2	-	27
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	-	-	28

INDEPENDENT AUDITOR'S REPORT

The Honorable John T. Groce, Mayor
and Board of Aldermen
Village of Natchez, Louisiana

I have audited the accompanying general purpose financial statements and the combining, individual fund and account group financial statements of the Village of Natchez, Louisiana, as of June 30, 1999 and for the two years then ended, as listed in the table of contents. These financial statements are the responsibility of the Village of Natchez's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

The Village did not adopt a budget for the year ended June 30, 1998, therefore a statement of revenues, expenditures, and changes in fund balances - budget (GAAP basis) and actual, which is a required presentation under generally accepted accounting principles, is not presented. I was unable to satisfy myself as to whether fines and forfeitures revenue was fairly presented for the two years ended June 30, 1999 since the Village had inadequate internal controls over processing traffic tickets during these two years. Due to the nature of the Village's records, and inadequate internal controls over traffic tickets and receipt of funds therefrom, I was unable to satisfy myself as to the fines and forfeitures revenue by means of other auditing procedures. Fines and forfeitures revenue as stated in the general purpose and individual fund financial statements represents 12% in 1999 and 52% in 1998 of the revenues of the general purpose financial statements and 49% in 1999 and 52% in 1998 of the revenues of the General Fund individual fund financial statement revenues. Also, the general purpose and account group financial statements referred to in the first paragraph include the financial activities of the general fixed assets account group. The Town has not maintained a complete record of its general fixed assets. Therefore, the general fixed asset account group was not audited by me and I express no opinion on it. Those financial activities of the general fixed assets account group, which are included in the general purpose financial statements, represent 9% of the assets of the general purpose financial statements. Also, as discussed in Note 9 to the financial statements, The Village of Natchez, Louisiana, has expended certain federal grant funds relating to a grant from the Louisiana Housing Finance Agency, in a manner that may have violated certain of the restrictive provisions of the related grant agreement. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability, except for the amount of \$32,367 as discussed in Note 9, has been made in the general purpose financial statements for possible federal claims for reimbursement of those grant funds.

In my opinion, except for the effect on the financial statements of the matters described in the preceding paragraph, if any, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Village of Natchez, Louisiana, as of June 30, 1999, the results of its operations and the cash flows of its proprietary fund type for the two years then ended, in conformity with generally accepted accounting principles. Also, in my opinion, except for the effect on the financial statements of the matters described in the preceding paragraph, if any, the combining, individual fund, and account group financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Village of Natchez at June 30, 1999, and the results of operations of such funds and the cash flows of the individual proprietary fund for the two years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated March 2, 2000 on my consideration of the Village of Natchez, Louisiana's internal control over financial reporting and my tests on its compliance with certain provision of laws, regulations and contracts.



EUGENE W. FREMAUX II, CPA
March 2, 2000

EXHIBIT A

VILLAGE OF NATCHEZ, LOUISIANA
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

	GOVERNMENTAL FUND TYPE		PRORPRIETARY FUND TYPE	ACCOUNT GROUP	TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	ENTERPRISE	GENERAL FIXED ASSETS (Unaudited)	
ASSETS					
Cash and cash equivalents	\$2,016	\$0	\$6,047		\$8,063
Receivables	5,306		7,105		12,411
Due from Utility Fund	12,494				12,494
Deposits	50				50
General fixed assets			1,515,854	\$123,551	123,551
Utility plant and equipment			(297,186)		1,515,854
Accumulated depreciation					(297,186)
Total assets	\$19,866	\$0	\$1,231,820	\$123,551	\$1,375,237
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$15,885	\$0	\$906		\$16,791
Payroll taxes payable	5,919		135		6,054
Accrued payroll	848		260		1,108
Due to Louisiana Housing Finance Agency	32,367		0		32,367
Due to General Fund			12,494		12,494
Total liabilities	55,019	0	13,795	0	68,814
Fund Equity:					
Contributed capital			1,672,336	\$123,551	1,672,336
Investments in general fixed assets			(454,311)		123,551
Retained earnings (deficit) - unreserved					(454,311)
Fund balances:					
Unreserved & undesignated	(35,153)				(35,153)
Total retained earnings/fund balances	(35,153)	0	1,218,025	123,551	1,306,423
Total fund equity (deficit)	(35,153)	0	1,218,025	123,551	1,306,423
Total liabilities and fund equity	\$19,866	\$0	\$1,231,820	\$123,551	\$1,375,237

The notes to the financial statements are an integral part of this statement.

EXHIBIT B

VILLAGE OF NATCHEZ, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GENERAL AND SPECIAL REVENUE FUND TYPES
 YEARS ENDED JUNE 30, 1999 AND 1998

	1999			1998		
	GENERAL	SPECIAL REVENUE	TOTAL (MEMORANDUM ONLY)	GENERAL	SPECIAL REVENUE	TOTAL (MEMORANDUM ONLY)
Revenues:						
Taxes	\$15,772	\$0	\$15,772	\$15,086	\$0	\$15,086
Intergovernmental	6,623	161,576	168,199	3,227	0	3,227
Fines and forfeits	25,707	0	25,707	23,493	0	23,493
Miscellaneous	4,527	0	4,527	3,051	0	3,051
Total revenues	<u>52,629</u>	<u>161,576</u>	<u>214,205</u>	<u>44,857</u>	<u>0</u>	<u>44,857</u>
Expenditures:						
Current:						
General government	25,951	168,462	194,413	25,031	0	25,031
Public safety	31,228	0	31,228	27,581	0	27,581
Total expenditures	<u>57,179</u>	<u>168,462</u>	<u>225,641</u>	<u>52,612</u>	<u>0</u>	<u>52,612</u>
Excess (deficiency) of revenues over expenditures	(4,550)	(6,886)	(11,436)	(7,755)	0	(7,755)
Other financing sources (uses):						
Transfers out to grantor agency	0	6,886	6,886	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(4,550)	0	(4,550)	(7,755)	0	(7,755)
Fund balances, beginning of year	(30,603)	0	(30,603)	(22,848)	0	(22,848)
Fund balances, end of year	<u>(\$35,153)</u>	<u>\$0</u>	<u>(\$35,153)</u>	<u>(\$30,603)</u>	<u>\$0</u>	<u>(\$30,603)</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF NATCHEZ, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (GAAP BASIS) AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES
 YEARS ENDED JUNE 30, 1999 AND 1998

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	1999	1998	VARIANCE FAVORABLE (UNFAVORABLE)	1999	1998	VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL		BUDGET	ACTUAL	
Revenues:						
Taxes	\$14,489	\$15,772	\$1,283	\$0	\$0	\$0
Intergovernmental	3,181	6,623	3,442	161,576	161,576	0
Fines and forfeits	24,290	25,707	1,417	0	0	0
Miscellaneous	4,052	4,527	475	0	0	0
Total revenues	46,012	52,629	6,617	161,576	161,576	0
Expenditures:						
Current:						
General government	32,230	25,951	6,279	168,462	168,462	0
Public safety	20,400	31,228	(10,828)	0	0	0
Total expenditures	52,630	57,179	(4,549)	168,462	168,462	0
Excess (deficiency) of revenues over expenditures	(6,618)	(4,550)	2,068	(6,886)	(6,886)	0
Other financing sources (uses):						
Transfers out to grantor agency	0	0	0	6,886	6,886	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(6,618)	(4,550)	2,068	0	0	0
Fund balances, beginning of year	(30,603)	(30,603)	0	0	0	0
Fund balances, end of year	(\$37,221)	(\$35,153)	\$2,068	\$0	\$0	\$0

The notes to the financial statements are an integral part of this statement.

VILLAGE OF NATCHEZ, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
 PROPRIETARY FUND TYPE
 YEARS ENDED JUNE 30, 1999 AND 1998

	YEAR ENDED JUNE 30,	
	1999	1998
Operating revenues:		
Sewer charges	<u>\$34,985</u>	<u>\$35,995</u>
Total operating revenues	<u>34,985</u>	<u>35,995</u>
Operating expenses:		
Salaries	7,630	10,461
Bad debt expense	2,150	3,100
Payroll taxes	584	796
Audit	0	600
Depreciation	34,418	34,506
Insurance	400	1,395
Testing fees	460	655
Supplies	1,120	1,934
Repairs and maintenance	164,008	6,377
Equipment lease payments	176	9724
Miscellaneous	613	1,803
Office supplies	554	973
Utilities	<u>3,159</u>	<u>5,443</u>
Total operating expenses	<u>215,272</u>	<u>77,767</u>
Net loss	(180,287)	(41,772)
Retained earnings (deficit), beginning of year	<u>(274,024)</u>	<u>(232,252)</u>
Retained earnings (deficit), end of year	<u>(\$454,311)</u>	<u>(\$274,024)</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
 TWO YEARS ENDED JUNE 30, 1999 AND 1998

	YEAR ENDED JUNE 30,	
	1999	1998
Cash flows from operating activities:		
Cash received from customers	\$34,267	\$36,983
Cash payments to suppliers and employees	(190,844)	(42,806)
Net cash provided (used) by operating activities	(156,577)	(5,823)
Cash flows from capital and related financing activities:		
LCDBG grant proceeds	161,576	0
Payments for capital acquisitions	(270)	(621)
Net cash provided (used) by capital and related financing activities	161,306	(621)
Net increase (decrease) in cash and cash equivalents	4,729	(6,444)
Cash and cash equivalents, beginning of year	1,318	7,762
Cash and cash equivalents, end of year	\$6,047	\$1,318
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	(\$180,287)	(\$41,772)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	34,418	34,506
Provision for doubtful accounts receivable	2,150	3,100
(Increase) decrease in accounts receivable	(2,868)	(2,112)
Increase (decrease) in payroll taxes payable	(713)	705
Increase (decrease) in accounts payable	(3,164)	(7,129)
Increase (decrease) in accrued payroll	(255)	148
Increase (decrease) in due to other funds	(5,858)	6,731
Total adjustments to operating income (loss)	23,710	35,949
Net cash provided (used) by operating activities	(\$156,577)	(\$5,823)

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

(1) Summary of Significant Accounting Policies

The Village of Natchez, Louisiana was incorporated under the provisions of the Lawrason Act. The Village operates under a Mayor-Board of Aldermen form of government. The Villages's operations include police protection, public works, and general and administrative services.

The accounting and reporting policies of the Village of Natchez conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The more significant of the government's accounting policies are described below.

Financial reporting entity

In evaluating how to define the Village of Natchez for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the financial statements of the Village of Natchez consists of only the funds and account groups since the Village has no oversight responsibility for any other governmental entity.

Fund accounting

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

Governmental Fund
 General Fund

The General Fund is the general operating fund of the Village. It is used to account for

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue funds consist of the Community Development Block Grant and Louisiana Housing Finance Agency Grant Funds.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fixed assets and long-term liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

All governmental fund type operations are accounted for on a spending or "financial flow" measurement focus and only current assets and current liabilities are generally included on their balance sheets.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and are recorded as expenditures in the governmental fund types when purchased. The Village has elected not to capitalize public domain ("infrastructure") fixed assets consisting of certain improvements other than buildings, including roads, bridges, sidewalks, and drainage improvements. No depreciation has been provided on general fixed assets.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with its activity are included on its balance sheet.

The fixed assets of the proprietary fund are depreciated over the estimated useful lives using the straight-line method. Estimated useful lives of the fixed assets range from 5 to 60 years.

All fixed assets are stated at historical cost.

Basis of accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Franchise taxes, sales taxes, earned grant revenues, intergovernmental revenue, and interest income, are accrued, when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except that principal and interest on general long-term debt is recognized when due. Purchases of various operating supplies are regarded as expenditures at the time purchased.

The proprietary fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Budgets and Budgetary Accounting

The Village did not adopt a budget for the year ended June 30, 1998.

Cash and cash equivalents

Consistent with GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the Village of Natchez defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents - short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

Bad debts

Uncollectible amounts various revenues receivable are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

Total columns on combined statements - overview

Total columns on the combined statements - overview are captioned "(MEMORANDUM ONLY)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Compensated absences

VILLAGE OF NATCHEZ, LOUISIANA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 1999

Employees of the Village of Natchez do not accrue or "carry forward" vacation or sick pay from year to year nor do employees vest with respect to vacation or sick pay. As such, there are no accruals made in either the General Fund, or in the General Long-Term Debt Account Group for these payments.

(2) Receivables

Revenues receivable at June 30, 1999 consisted of the following:

Sales taxes	\$	335
Beer and tobacco taxes		750
Receivable from elected officials		1,042
Franchise tax receivable		515
Grant receivable		2,664

Total General Fund		5,306

Sewer fees, net of allowance for bad debts of \$11,400		7,105

Total Utility Fund		7,105

		\$12,411
		=====

The receivable from elected officials is composed of \$895 due from the ex-Mayor Clave Davis for fines received by him, but not deposited, and \$147 due from Mayor John Groce for fines received by him, but not deposited.

(3) Changes in Fixed Assets

During the two years ended June 30, 1999 the following additions were made in general fixed assets:

Office equipment	\$	366
Police equipment		988

		\$1,354
		=====

A summary of proprietary fund type property, plant and equipment at June 30, 1999 follows:

Building		\$ 68,626
Maintenance equipment		20,144
Sewer treatment plant		576,452
Collection system		850,632
Total		1,515,854
Less accumulated depreciation		(227,186)
Net		\$1,218,668
		=====

During the two years ended June 30, 1999 there were additions of \$891 to maintenance equipment.

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

(4) Retirement System

All employees of the Village of Natchez, including police employees, are covered under the Social Security System. The employees pay 7.65% of their total salaries into the system, while the Town pays in a like amount. Data concerning the actuarial status of this system are unavailable. Future deficits in this system will be financed by the Federal government and the Town has no further liability to the system.

(5) Lease Obligations

The Village was not obligated under any capital lease commitments at June 30, 1999. The Village was obligated under an operating lease which requires annual lease payments as follows:

Year ending	Amount
June 30, 2000	\$ 963
June 30, 2001	963
June 30, 2002	642

(6) Cash and Cash Equivalents

Louisiana revised Statutes authorize the Village to invest in United States bonds, treasury notes or certificates, or to deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

The Village had no investments at June 30, 1999. The Village's cash on deposit at June 30, 1999, is deposited in financial institutions insured by the Federal Government through federal depository insurance. The Village's cash on deposit was fully secured by FDIC insurance at July 30, 1999 as well as at all times during the year then ended.

(7) Pending Litigation

The Village is a party to legal proceedings involving suits filed against the Village for various reasons, however Village management does not believe the Village is exposed to any material losses in these proceedings. Accordingly, no provision for losses is included in the financial statements.

(8) Year 2000

The Village's sewer billings software used through December 1999 is not year 2000 compliant, therefore sewer billings had to be prepared and tracked manually beginning January 1, 2000. In March 2000 the Village began using a replacement software package, which was obtained at no cost to the Village.

(9) Contingencies

On February 1, 1994 the Village was awarded a \$75,000 Small Cities Health and Safety Rehabilitation Grant from the Louisiana Housing Finance Agency (LHFA). The Village was forced to return \$6,688 of the \$75,000 grant in October 1995 in connection with a performance monitoring visit from LHFA representatives due to LHFA's findings that the

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

Village was in material noncompliance with the provisions of the grant. As a result of these findings, LHFA has indicated that the Village must reimburse LHFA for the remainder of the grant unless certain of the deficiencies are corrected. The Village is working toward correcting noncompliance problems such as financial and program documentation, and has made demand on the contractors to bring the homes up to minimum housing standards as required by the grant. In addition, the Village has requested additional time from LHFA to correct the noncompliance problems. In October of 1998 LHFA funded an additional \$6,886 for the Village to use to correct some of the outstanding noncompliance problems. With the exception of the amount of \$32,367 discussed in the following paragraph, no provision has been made in the general purpose financial statements for any liability that may result from these problems.

One of the above noncompliance problems resulted from rehabilitation of three homes for individuals specifically prohibited from participating in the program under the "conflict of interest" provisions of the grant agreement. Since the Village does not believe it will be possible to correct this problem to the satisfaction of LHFA, the Village has recorded a liability in the amount of \$32,367 to reimburse LHFA for these ineligible costs. The Village does not presently have the resources needed to reimburse LHFA.

The Village intends to pursue all available legal action against the contractors, the Village's ex-mayor and any others that may be responsible for these deficiencies. On August 13, 1997 the Village's ex-mayor was found guilty in U. S. District Court of theft of government funds relating to disbursements under this grant and was ordered to make restitution of \$32,367.

In addition, the Village has received other Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by Federal and State for expenditures disallowed, if any, under the terms of the appropriate agency.

The Village sewer system is operating with expired discharge permits from the Louisiana Department of Environmental Quality (DEQ) and the Environmental Protection Agency (EPA). The Village applied to DEQ on April 17, 1995 and the EPA on June 16, 1995 for updated discharge permits, but has not received a valid permit. Operation of the sewer system without valid discharge permits could result in the assessment of fines by DEQ and/or EPA. In addition, on January 21, 1997 DEQ issued a Compliance Order (Order) relating to operating with a valid discharge permit and numerous operating deficiencies in the wastewater collection and treatment system. Failure of the Village to comply with the Order could result in assessed civil penalties of up to \$50,000 per day of violation. No provision has been made in the general purpose financial statements for any liability that may result from noncompliance with the Order. In addition, the Village is also operating with a Temporary Operator Certification in the name of Mayor Groce which expires on August 20, 2000.

(10) Deficit in fund balance

As of June 30, 1999 the General Fund has a deficit fund balance of \$35,153 which is due primarily to the recording of the liability of \$32,367 to LHFA as discussed in Note 9. Management of the Village does not yet have a plan to eliminate the deficit fund balance. In addition, the Utility Fund has a deficit fund balance of \$454,311, primarily due to accumulated depreciation of \$297,186 on contributed assets and major repair costs incurred during 1999. The Village is incurring operating losses with the sewer system and presently does not have a plan to eliminate the operating losses.

VILLAGE OF NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

(11) Compensation paid to Mayor and Aldermen

In accordance with the requirements of the Office of the Legislative Auditor, State of Louisiana, the following reflects compensation paid to the Mayor and members of the Village Council:

For the year ended June 30, 1998:

Mayor Clave M. Davis	\$ 975
Aldermen:	
Dorothy Johnson	650
James L. Johnson	650
Amos Bradley	650

For the year ended June 30, 1999:

Mayor John T. Groce	\$ 825
Aldermen:	
Rosia Humphrey	550
Edna Jones	50
Amos Bradley	550
Henry Braxton	450

VILLAGE OF NATCHEZ, LOUISIANA
GENERAL FUND
BALANCE SHEET
JUNE 30, 1999

ASSETS

Cash and cash equivalents	\$2,016
Receivables	5,306
Due from Utility Fund	12,494
Deposits	50
 Total assets	 \$19,866

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$15,885
Payroll taxes payable	5,919
Accrued payroll	848
Due to Louisiana Housing Finance Agency	32,367
 Total liabilities	 55,019

Fund Balance:

Fund balance (deficit) - undesignated	(35,153)
 Total fund balance (deficit)	 (35,153)
 Total liabilities and fund balance	 \$19,866

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEARS ENDED JUNE 30, 1999 AND 1998

	1999		VARIANCE FAVORABLE (UNFAVORABLE)	1998
	BUDGET	ACTUAL		ACTUAL
Revenues:				
Taxes:				
Ad valorem taxes	3,733	\$3,261	(\$472)	4,508
Franchise taxes	5,034	6,748	1,714	5,951
Sales taxes	5,722	5,763	41	4,627
Total taxes	14,489	15,772	1,283	15,086
Intergovernmental:				
Beer tax	834	874	40	881
Tobacco tax	2,347	2,347	0	2,346
Grants	0	3,402	3,402	0
Total intergovernmental revenue	3,181	6,623	3,442	3,227
Fines and forfeitures	24,290	25,707	1,417	23,493
Miscellaneous revenues	4,052	4,527	475	3,051
Total revenues	46,012	52,629	6,617	44,857
Expenditures:				
General government:				
Salaries - Mayor & Alderman	2,250	2,425	(175)	2,925
Salaries - clerical	7,000	6,179	821	4,603
Legal	3,000	0	3,000	3,652
Payroll taxes	1,000	746	254	2,778
Office supplies & printing	980	3,810	(2,830)	2,928
Insurance	1,800	201	1,599	697
Utilities and telephone	4,500	5,414	(914)	6,159
Collection fee	0	173	(173)	143
Capital outlay	10,500	367	10,133	0
Audit	1,200	0	1,200	0
Miscellaneous	0	6,636	(6,636)	1,146
Total general government	32,230	25,951	6,279	25,031
Public safety:				
Salaries	6,600	11,672	(5,072)	10,450
Fuel & supplies	2,250	2,047	203	1,629
Repairs	200	899	(699)	634
Miscellaneous	10,340	6,006	4,334	7,470
Payroll taxes	1,010	893	117	799
Insurance	0	829	(829)	2,527
Equipment lease payments	0	7,894	(7,894)	4,072
Capital outlay	0	988	(988)	0
Total public safety	20,400	31,228	(10,828)	27,581

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEARS ENDED JUNE 30, 1999 AND 1998

	1999		VARIANCE FAVORABLE (UNFAVORABLE)	1998
	BUDGET	ACTUAL		ACTUAL
Expenditures: (continued)				
Total expenditures	52,630	57,179	(4,549)	52,612
Excess of revenues over expenditures	(6,618)	(4,550)	2,068	(7,755)
Fund balance, beginnning of year	(30,603)	(30,603)	0	(22,848)
Fund balance, end of year	(\$37,221)	(\$35,153)	\$2,068	(\$30,603)

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 1999

	LHFA FUND	LCDBG FUND	TOTAL
ASSETS			
Cash and cash equivalents	\$0	\$0	\$0
Total assets	\$0	\$0	\$0
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$0	\$0	\$0
Fund Balance:			
Unreserved	0	0	0
Total liabilities and fund balance	\$0	\$0	\$0

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 SPECIAL REVENUE FUND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 YEARS ENDED JUNE 30, 1999 AND 1998

	1999			1998		
	LHFA FUND	LCDBG FUND	COMBINED	LHFA FUND	LCDBG FUND	COMBINED
Revenues:						
Intergovernmental	\$0	\$161,576	(\$161,576)	\$0	\$0	\$0
Interest	0	0	0	0	0	0
Total revenue	0	161,576	(161,576)	0	0	0
Expenditures:						
General government	6,886	161,576	(154,690)	0	0	0
Excess (deficiency) of revenues over (under) expenditures	(6,886)	0	(6,886)	0	0	0
Other financing sources (uses):						
Transfers out to grantor agency	6,886	0	6,886	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures	0	0	0	0	0	0
Fund balance, beginning of year	0	0	0	0	0	0
Fund balance, end of year	\$0	\$0	\$0	\$0	\$0	\$0

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 SPECIAL REVENUE FUND
 LOUISIANA HOUSING FINANCE AGENCY FUND
 BALANCE SHEET
 JUNE 30, 1999

ASSETS

Cash and cash equivalents	\$0
Total assets	\$0

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable to LHFA	\$0
Fund Balance:	
Unreserved	0
Total liabilities and fund balance	\$0

VILLAGE OF NATCHEZ, LOUISIANA
SPECIAL REVENUE FUND
LOUISIANA HOUSING FINANCE AGENCY GRANT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
YEARS ENDED JUNE 30, 1999 AND 1998

	TOTAL BUDGET	ACTUAL PRIOR TO 1998	TOTAL ACTUAL 1998	TOTAL ACTUAL 1999	TOTAL ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Intergovernmental	\$75,000	\$78,000	\$0	\$0	\$78,000	\$3,000
Interest	0	0	0	0	0	0
Total revenue	<u>75,000</u>	<u>78,000</u>	<u>0</u>	<u>0</u>	<u>78,000</u>	<u>3,000</u>
Expenditures:						
General government	75,000	71,312	0	6,886	78,198	(3,198)
Excess (deficiency) of revenues over (under) expenditures	0	6,688	0	(6,886)	(198)	(198)
Other financing sources (uses):						
Transfers from (to) grantor agency	0	(6,688)	0	6,886	198	198
Excess (deficiency) of revenues and other financing sources over (under) expenditures	0	0	0	0	0	0
Fund balance, beginning of year	0	0	0	0	0	0
Fund balance, end of year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
SPECIAL REVENUE FUND
COMMUNITY DEVELOPMENT BLOCK GRANT
BALANCE SHEET
JUNE 30, 1999

ASSETS

Cash and cash equivalents	\$0
Total assets	\$0

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$0
Fund Balance:	
Unreserved	0
Total liabilities and fund balance	\$0

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 SPECIAL REVENUE FUND
 COMMUNITY DEVELOPMENT BLOCK GRANT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
 YEARS ENDED JUNE 30, 1999 AND 1998

	TOTAL BUDGET	TOTAL ACTUAL 1998	TOTAL ACTUAL 1999	TOTAL ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:					
Intergovernmental	\$161,576	\$0	\$161,576	\$161,576	\$0
Interest	0	0	0	0	0
Total revenue	161,576	0	161,576	161,576	0
Expenditures:					
Construction	119,359		119,359	119,359	0
Engineering	23,996		23,996	23,996	0
Administration	18,221	0	18,221	18,221	0
Excess (deficiency) of revenues over (under) expenditures	161,576	0	161,576	161,576	0
Other financing sources (uses):					
Transfers from (to) grantor agency	0	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures	0	0	0	0	0
Fund balance, beginning of year	0	0	0	0	0
Fund balance, end of year	\$0	\$0	\$0	\$0	\$0

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 ENTERPRISE FUND - SEWER FUND
 BALANCE SHEET
 JUNE 30, 1999

ASSETS

Current assets:

Cash and cash equivalents	\$6,047
Receivables, less allowance for bad debts of \$11,400	7,105
 Total current assets	 13,152

Land

Plant and equipment, at cost, net of accumulated depreciation of \$297,186	9,196
	1,209,472

Total assets	<u>\$1,231,820</u>
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LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable	\$906
Accrued payroll	260
Payroll taxes payable	135
Due to General Fund	12,494
 Total current liabilities	 13,795

Fund Balance:

Contributed capital - LCDBG	1,051,030
Louisiana Rural Development	30,000
EPA	591,306
 Total contributed capital	 1,672,336

Retained earnings (deficit)	(454,311)
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Total fund equity	1,218,025
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Total liabilities and fund equity	<u>\$1,231,820</u>
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The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 ENTERPRISE FUND - SEWER FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
 BUDGET (GAAP BASIS) AND ACTUAL
 YEARS ENDED JUNE 30, 1999 AND 1998

	1999		VARIANCE FAVORABLE (UNFAVORABLE)	1998
	BUDGET	ACTUAL		ACTUAL
Operating revenues:				
Sewer charges	\$32,193	\$34,985	\$2,792	\$35,995
<i>Total operating revenues</i>	<u>32,193</u>	<u>34,985</u>	<u>2,792</u>	<u>35,995</u>
Operating expenses:				
Salaries	17,133	7,630	9,503	10,461
Bad debt expense	0	2,150	(2,150)	3,100
Payroll taxes	2,300	584	1,716	796
Audit	0	0	0	600
Depreciation	0	34,418	(34,418)	34,506
Insurance	860	400	460	1,395
Testing fees	850	460	390	655
Supplies	350	1,120	(770)	1,934
Repairs and maintenance	1,000	164,008	(163,008)	6,377
Equipment lease payments	0	176	(176)	9,724
Miscellaneous	350	613	(263)	1,803
Office supplies	550	554	(4)	973
Utilities	5,000	3,159	1,841	5,443
<i>Total operating expenses</i>	<u>28,393</u>	<u>215,272</u>	<u>(186,879)</u>	<u>77,767</u>
Net loss	3,800	(180,287)	(184,087)	(41,772)
Retained earnings (deficit), beginning of ye	(274,024)	(274,024)	0	(232,252)
Retained earnings (deficit), end of year	<u>(\$270,224)</u>	<u>(\$454,311)</u>	<u>(\$184,087)</u>	<u>(\$274,024)</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
STATEMENT OF GENERAL FIXED ASSETS
JUNE 30, 1999
(Unaudited)

General fixed assets, at cost:	
Office equipment	\$3,646
Police equipment	16,369
Street and sanitation equipment	4,512
Recreation facilities	99,024
Total general fixed assets	<u>\$123,551</u>
Investment in general fixed assets:	
General fund revenues	<u>\$123,551</u>
Total investment in general fixed assets	<u>\$123,551</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF NATCHEZ, LOUISIANA
 STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
 YEARS ENDED JUNE 30, 1999 AND 1998
 (Unaudited)

	EQUIPMENT			RECREATION FACILITES	TOTAL
	OFFICE	POLICE	STREETS		
General fixed assets, July 1, 1997	\$3,280	\$15,381	\$4,512	\$99,024	\$122,197
Additions	0	0	0	0	0
General fixed assets, June 30, 1998	3,280	15,381	4,512	99,024	122,197
Additions	366	988			1,354
General fixed assets, June 30, 1999	<u>\$3,646</u>	<u>\$16,369</u>	<u>\$4,512</u>	<u>\$99,024</u>	<u>\$123,551</u>

The accompanying notes are an integral part of these statements.

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

The Honorable John T. Groce, Mayor
and Board of Aldermen
Village of Natchez, Louisiana

I have audited the general purpose financial statements of the Village of Natchez, Louisiana, and the individual fund, and account group financial statements of the Village of Natchez, Louisiana, for the two years ended June 30, 1999, and have issued my report thereon dated March 2, 2000. In my report, my opinion was qualified because of the omission of the statement of revenues, expenditures, and changes in fund balances - budget (GAAP basis) and actual for the year ended June 30, 1998, lack of complete records of fines and forfeitures and general fixed assets, and the uncertain liability that may arise due to possible violations of restrictive provision of a grant from the Louisiana Housing Finance Agency. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Natchez, Louisiana's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

1. Existing condition

The Village did not adopt a budget for the year ended June 30, 1998 as required by Louisiana law. In addition, the budgeted expenditures for the year ended June 30, 1999 were exceeded by more than 5% in both the general fund and the utility fund.

Recommended action

The Council should make sure that a budget is adopted each year. The budget should also be amended if expenditures or revenues are expected to vary more than 5% from the budgeted amounts.

Management's response

The Village has adopted a budget for the year ending June 30, 2000 and the year ending June 30, 2001.

2. Existing condition

The Village Council voted to pay the January 2000 payroll in December 1999, which is considered an advance and is in violation of Louisiana law. In addition, one of the police employees, deputy police officer Jackson Jones, Jr. has not worked since December 5, 1999 due to an alleged injury, however the employee was paid for the months of December 1999 and January 2000.

Recommended action

The Village should cease payments to deputy Jones until he returns to work.

Management's response

The Council has ceased payments to deputy Jones. Mayor Groce and the Council indicated that they were unaware that advance payments for payroll were in violation of Louisiana law.

3. Existing condition

The Mayor and Council members whose terms expired on June 30, 1998 were paid for two months in June 1998, thereby resulting in payments for 13 months in the year ended June 30, 1998, and an extra month of payment for their term of office.

Recommended action

The Council should request the extra month of pay be returned to the Village.

Management's response

The Mayor and Council will take this matter under advisement.

4. Existing condition

The Village received a COPS grant effective March 1, 1999, however the additional police officers were not hired until July 1, 1999. The officers were paid in accordance with the grant provisions and budget for the first four months, and then were given an additional \$2,394 in back pay, which was not in accordance with the grant budget, and was in violation of Louisiana law. Chief Benjamin indicated that he had discussed this back pay issue with the monitor from the Department of Justice (DOJ) and that they gave him verbal approval to make these payments. He stated that he was unaware that this payment might be in violation of Louisiana laws.

In addition, a separate bank account was established for the COPS grant, however not all payments under the grant were being made from this account. Also the grant advances were not deposited directly into this account.

No records of cash receipts and disbursements, with appropriate budget information, are being maintained for this grant, and no bank reconciliations were being prepared for the grant bank account.

Recommended action

The Chief should request a formal written budget revision from DOJ staff. In addition, the Council should consult the Village's legal counsel to make sure the payment does not violate Louisiana laws, and if it does, to determine what action should be taken.

Appropriate cash receipts and disbursement journals, with budget information, should be maintained for this grant. The bank account should be reconciled monthly, and copies of reconciliations should be maintained with the bank statement.

Management's response

The Mayor and Council indicated that they would follow the above recommended actions.

5. Existing condition

The Village did not have cash receipts and disbursement journals, including appropriate budget information, for the \$161,576 LCDBG grant which was used for emergency sewer system repairs. In addition, the Village did not have bank reconciliations for the grant bank account, and could not locate the grant bank statements for May and August of 1999. In general, grant supporting records were in disarray.

Recommended action

The Mayor and Council should make sure that appropriate records are maintained properly as required by each grant.

Management's response

The Mayor and Council indicated that they were unaware that the proper records were not maintained for this grant.

6. Existing condition

The Village obtained a Louisiana Rural Development grant to allow for renovations to the Village office and town hall. There was no documentation in the Village files for the first draw of \$2,663.85 dated June 30, 1999, and copies of the documentation had to be requested from the Governor's Office of Rural Development. Some of the expenses under the grant included employee wages, however the

available documentation did not indicate what the employees did, nor what portion of the renovations the employee worked on. The renovation project was incomplete in January 2000 and the stated goals in the grant will not be met, primarily due to not enough funding, therefore leaving the Village with an incomplete construction project. This project was supervised by Mayor Groce, who indicated that some of the supplies were stolen. Chief Benjamin indicated that no reports of stolen supplies had been given to him by Mayor Groce.

In addition, no cash receipts and disbursement journals were maintained for this grant.

Recommended action

The Mayor and Council should make sure that appropriate records are maintained properly as required by each grant.

Management's response

The Mayor and Council indicated that they were unaware that appropriate documentation was missing or incomplete.

7. Existing condition

The Village does not maintain complete records of general fixed assets. No inventory of fixed assets has been undertaken. Fixed assets owned or leased by the Village are not properly controlled, thereby resulting in some fixed assets missing when the current administration took office on July 1, 1998. Some of the missing equipment was located, however some equipment, such as a leased Xerox copier, have not been located.

Recommended action

The Village should take an inventory of all fixed assets and begin to maintain the proper records as required by Louisiana law. In addition, an investigation should be undertaken to determine the disposition of the missing Xerox copier.

Management's response

The Mayor indicated that the missing copier instance had been reported to the District Attorney, however the District Attorney has taken no action to date. The Village will take an inventory of all fixed assets and appropriately identify each asset.

8. Existing condition

The Village does not have current discharge permits from the Louisiana Department of Environmental Quality (DEQ) and the Environmental Protection Agency (EPA) for discharge from the wastewater treatment plant operated by the Village. In addition, the Village is operating the plant under a Temporary Operator Certification in the name of Mayor Groce which expires on August 20,

2000, however Mayor Groce has not taken an examination to obtain a permanent certification.

Recommended action

The Council should make sure that these permits and certifications are obtained on a timely basis.

Management's response

Mayor Groce indicated that he believed that the Village had these permits, however he could not produce them.

9. Existing condition

The Village did not deposit protested ad valorem taxes of \$51.26 received in December 1998 in a separate escrow account as required under Louisiana law.

Recommended action

The Council should authorize an escrow account so that these protested taxes can be properly deposited.

Management's response

The Council was unaware of this requirement and agreed to establish an escrow account.

10. Existing condition

In general, the Village's records were in disarray and numerous records were either missing or the Mayor was unable to locate the records. Mayor Groce was the only person with a key to the office, so therefore the responsibility of maintaining orderly records falls on the Mayor. Louisiana law requires that records be maintained properly and in an orderly fashion.

Recommended action

The Council should make sure that the records are maintained properly.

Management's response

Mayor Groce indicated that some of the problems with the records were the result of the Village office being flooded for about a week in the spring of 1999, along with numerous break-ins. Chief Benjamin stated he has no knowledge of any break-ins.

11. Existing condition

As of January 31, 2000 the Village had not replaced the sewer billing software that was not year 2000 compliant, therefore billings for January 2000 had to be prepared manually. In addition, the software used prior to January 1, 2000 was not under any maintenance contract and had errors in the database which resulted in not being able to retrieve some information. In March 2000 the Village began using a replacement software package to allow billing to continue.

Recommended action

The Council should make sure that action is taken on a timely basis in the future when situations such as this arise so that the risk of loss to the Village is minimized.

Management's response

The Council indicated that they had been encouraging the Mayor to resolve this problem for some time.

12. Existing condition

The audit of the Village's general purpose financial statements for the two years ended June 30, 1999 was not completed within six months as required by Louisiana law due to high turnover of the position of Village clerk during these two years (five individuals) and due to the Village's late engagement of a certified public accountant. The Council had recommended early engagement of a certified public accountant, however Mayor Groce did not follow up on the engagement in a timely fashion.

Recommended action

The Council should take whatever action is needed to engage a certified public accountant at least two months before the year ends, and to determine that the financial records are completed and ready for audit within 30 days after the end of the year.

Management's response

The Council indicated that these recommended actions will be followed.

13. Existing condition

In October 1998, the Village received an additional \$6,886 of funds for use in correcting some outstanding noncompliance problems from a 1994 Louisiana Housing Finance Agency (LHFA) grant. The Village hired a housing consultant to use these funds to correct these problems, however there was no documentation in the Village's files as to what the funds were used for or what was the outcome of the expenditures. In addition there were no invoices or contract on

file from the consultant. The only documentation available was the canceled checks.

Recommended action

The Council must determine that proper grant documentation and record keeping procedures are followed. Before checks are signed by the Alderman assigned to check signing, the Alderman needs to personally determine that proper documentation is available.

Management's response

Mayor Groce indicated that he did not know what happened to the grant documentation. The Council indicated that the recommended actions will be followed.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Natchez, Louisiana's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in my judgment, could adversely affect the Village of Natchez, Louisiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described below:

14. Existing condition

As in prior years, controls over traffic tickets are not adequate to insure that all tickets are accounted for and that all cash receipts from the payment of the tickets are deposited in the Village bank account. Records of tickets issued are not maintained in ticket number order. Changes to tickets are not signed by the Mayor, the only official allowed to make changes, therefore it is not possible to determine if the Mayor has approved the change. There is no cross reference between cash receipts and bank deposits, therefore it is not possible to determine which payments were deposited. Mayor Groce continues to collect fines, as opposed to having the individual come by the office during regular office hours and pay the clerk. Payments received by Mayor Groce are sometimes held, as a courtesy to the individual, for some time before being deposited. In one instance, Mayor Groce received a cash payment of \$147 on May 21, 1999, wrote up a corresponding cash receipt, but replaced the payment with his personal check which was not deposited until June 3, 1999 and was returned unpaid by the bank the following day. The returned check had not been replaced as of March 2, 2000. In

addition, two cash receipts (8186 and 165675) were cut out of the cash receipts book.

Paid tickets are stamped with a paid stamp, however no date is included on the paid ticket, nor is a copy of the cash receipt attached, therefore it is difficult to determine appropriate payment information from the paid ticket.

Recommended action

The Council should insist that proper controls are implemented and followed so that controls over tickets and their related revenue are satisfactory. The Council members should personally satisfy themselves periodically that these controls are functioning as intended.

Management's response

Mayor Groce indicated that he was unaware that his check had been returned unpaid. He also indicated that the payment received by him was a money order, which was lost, and therefore he had to replace the funds with his check. He also indicated that he did not know anything about any cash receipts that had been cut out of the cash receipts book. He stated that he was not aware that his holding someone's check to deposit later would create any problem for the Village and that he would stop that practice in the future.

15. Existing condition

Internal controls over sewer revenues are not adequate to protect the Village from substantial loss of revenues from non-payment of sewer billings. This has been a problem ever since the system became operational, and continues to grow in size. As of June 30, 1999 approximately 82 percent of total sewer billings were past due. The established cutoff policy adopted by the Village is not being followed, despite a grant from Louisiana which was received to install cutoff valves on the customer's lines so that service could be cut off when appropriate.

In addition, there are no controls over adjustments to sewer accounts to determine if the adjustment is proper or not. For instance, on April 27, 1999 a negative adjustment was made to ex-Mayor Davis' past due account in the amount of \$279. Mayor Groce indicated that he had no knowledge of the adjustment or why it had been made. Also no monthly reports from the billing software were retained since July 1, 1998.

Recommended action

The Council should take whatever action is needed to minimize the risk of loss to the Village from past due accounts. These actions should not be limited to cutoff valves, but should consider an arrangement with the District water system and submission of past due amounts to Louisiana for collection under the new offset laws.

In addition, the Council should require monthly trial balances, information on adjustments and a reconciliation of monthly cash receipts, payments recorded in the billing system and deposits to the bank account.

Management's response

The Council indicated that these recommended actions will be implemented as much as possible.

16. Existing condition

Internal controls over payrolls need to be improved so that adequate detail information is collected and properly maintained. Only limited detailed payroll information is available for the first three quarters of 1999, therefore the Village has been unable to prepare Form W-2s for employees. Records of time worked, gross pay and payroll deductions could not be located for this time period. In addition, the lack of information exposes the Village to possible penalties from Louisiana and the Internal Revenue Service. Time sheets that were located were not signed by the employee.

Recommended action

It is imperative that required payroll records are maintained in accordance with guidelines established by the Department of Labor and the Internal Revenue Service. All payroll checks should be supported by properly completed, signed and approved time records. In addition, procedures for maintaining detail payroll information for preparation of quarterly and annual payroll reporting requirements must be adopted and followed.

Management's response

Mayor Groce stated that he was not aware of the missing information, nor did he know what type of information was required to be maintained.

17. Existing condition

A number of instances were noted where general fund vendors were paid from the utility fund. These payments unnecessarily complicate record keeping and financial reporting.

Recommended action

Direct payments to vendors should be paid from the correct fund. The Alderman assigned to check signing, presently Rosia Humphrey, should be sure that the proper fund check is used for vendor payments.

Management's response

Mayor Groce indicated that since the utility fund owed the general fund a large amount when he took office on July 1, 1998, he assumed it was not a problem to pay general fund vendors with utility fund checks.

18. Existing condition

All the Village records have been basically under the control of Mayor Groce during his term in office, since he was not willing to let the clerk have a key to the office or to collect the mail from the post office. During this period of time a number of records, such as payroll time sheets, bank statements, charge back notices, vendor invoices, grant documentation, and cash receipts, have become missing. In addition, according to the last two clerks, computer files have been deleted on more than one occasion.

Recommended action

The Council should make periodic checks to determine that the appropriate records are being maintained and are still available for examination and are filed in an orderly fashion. In addition, procedures should be established to completely backup to diskette all computer files so that another copy will be available should it be needed as the result of hardware failures or otherwise. As additional protection the backup copy should not be maintained at the Village's office, but be maintained at another site as determined by the Council.

Management's response

The Council indicated that these recommended actions will be implemented as soon as possible. Mayor Groce indicated that he did not know what had caused the computer files to be lost, nor did he know what had happened to the missing records.

19. Existing condition

The Village's bank statements were not reconciled during the majority of the two years ended June 30, 1999.

Recommended action

The Council should require that the clerk furnish them copies of the bank reconciliations at the regular monthly council meeting.

Management's response

The Council will adopt the above recommendation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level

the risk that misstatements in amounts that would be material in relation to the general purpose 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. My 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, of the reportable conditions described above, I consider items 14-16 and 18-19 to be material weaknesses.

This report is intended for the information of management, Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



EUGENE W. FREMAUX II, CPA
March 2, 2000