

MCELROY, QUIRK & BURCH

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL
CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements and the combining and account group financial statements of the Town of Welsh, Louisiana for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Audit 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 general purpose financial statements and combining and account group financial statements are free of material misstatement.

The management of the Town of Welsh, Louisiana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY ENTERPRISE FUND

ANALYSIS OF ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT
REQUIRED BY SECTION 15 OF 1988 PUBLIC UTILITY REVENUE BOND
Year Ended May 31, 1996

<u>Description</u>	<u>Amount</u>
Land	\$ 69,120
Electricity:	
Distribution system	\$ -
Equipment	<u>30,079</u>
	30,079
Water:	
Distribution system	-
Equipment	<u>13,462</u>
	13,462
Sewer:	
Distribution system	-
Equipment	<u>10,599</u>
	10,599
Construction in progress:	
Water	-
Sewer	<u>101,062</u>
	<u>101,062</u>
 Total additions	 <u>\$ 224,322</u>

TOWN OF WELSH, LOUISIANA

SCHEDULE OF INSURANCE POLICIES IN FORCE
May 31, 1996

<u>Insurer</u>	<u>Policy Number</u>	<u>Amount of Policy</u>
OVERSIGHT UNIT-TOWN OF WELSH		
Hartford Steamboiler Insurance	BMI-NO-9534128-03	\$ 400,000
Louisiana Municipal Risk Management Agency	LML-309	500,000
Audubon Indemnity Co.	APD-800653-01	259,570
SAFECO Insurance Company of America	APB-7506672B	500,000
Western Surety	18270452	25,000
Trinity Universal Insurance Company of Kansas, Inc.	CRA7351867 06 36	10,000 50,000
Audubon Insurance Company	CFP531116	50% of 1,055,700
Trinity Universal Insurance Company of Kansas, Inc.	CF8926537 03	50% of 1,055,700
Western Surety	WS12844782	25,000
Louisiana Municipal Risk Management Agency	LML-309	500,000
Louisiana Municipal Risk Management Agency	LML-309	500,000
Louisiana Municipal Risk Management Agency	LML-309	500,000
Western Surety Co.	68299783	5,000
Western Surety Co.	68299784	5,000
Louisiana Municipal Risk Management	WC-0077	100,000 500,000 100,000
COMPONENT UNIT-HOSPITAL & EXTENDED CARE FACILITY		
Travelers Insurance Co.	P-630-520K2787-TIL-94	5,000,000 4,500,000 500,000
Louisiana Hospital Association Trust Fund	HPL-550-94	100,000 500,000
Louisiana Patient Compensation Fund	HPL-550-94	100,000
Louisiana Hospital Association Trust Fund	HPL-550-94-E1	100,000 500,000
Louisiana Hospital Association Trust Fund	HPL-550-94-E2	100,000 500,000
Louisiana Patient Compensation Fund	HPL-550-94-E2	100,000
Louisiana Hospital Association Trust Fund	HPL-550-94-E3	100,000 500,000
Trinity Universal Insurance Co.	427691	75,000
Trinity Universal Insurance Co. of Kansas	GAS895807305 36	-

<u>Risk Covered</u>	<u>Policy Expiration Date</u>
Property damage	12/9/96
Auto-liability	10/1/97
Per occurrence	10/1/96
Airport owners, landlords and tenants liability	10/1/96
Public employees blanket bond	5/7/97
Robbery and safe	4/12/97
Burglary	4/12/97
Buildings and contents	2/28/97
Buildings and contents	2/28/97
Honesty bond-Clerk	1/20/97
Law enforcement liability	10/1/97
Public officials	10/1/97
General liability	10/1/97
Ex officio notary public surety bond	7/13/96
Ex officio notary public surety bond	7/13/96
Bodily injury by accident - each accident	1/1/97
Bodily injury by disease - policy limit	1/1/97
Bodily injury by disease - each employee	1/1/97
Boiler and machinery coverage	11/29/96
Building contents	11/29/96
Building contents	11/29/96
- per claim hospital professional liability	11/1/96
- per occurrence comprehensive general liability	
- per claim	11/1/96
- per occurrence comprehensive general liability	11/1/96
- per claim hospital professional liability	11/1/96
- per occurrence comprehensive general liability	11/1/96
- per claim	11/1/96
- per claim hospital professional general liability	11/1/96
- per occurrence comprehensive general liability	11/1/96
Public employees blanket bond	6/26/96
Glass coverage	7/28/96

TOWN OF WELSH, LOUISIANA
ENTERPRISE FUNDS

COMBINING BALANCE SHEETS
May 31, 1996

With Comparative Totals for May 31, 1995

<u>ASSETS</u>	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>
Current assets:			
Cash and cash equivalents	\$ 5,904	\$ 35,703	\$ 12,130
Investments	91,490	5,213	26,443
Receivables:			
Accounts	208,330	742,428	197,596
Estimated uncollectibles and allowances	(15,350)	(200,241)	(7,800)
Unbilled accounts	80,640	-	-
Accrued interest	2,284	1,615	-
Inventory	82,060	77,311	3,252
Prepaid expenses	3,564	9,069	14,682
Due from other funds	637	4,400	-
Due from other agencies	-	-	-
Total current assets	<u>459,559</u>	<u>675,498</u>	<u>246,303</u>
Restricted assets:			
Cash and cash equivalents	22,196	462	23,061
Investments	<u>882,953</u>	<u>95,906</u>	<u>188,788</u>
Total restricted assets	<u>905,149</u>	<u>96,368</u>	<u>211,849</u>
Property, plant and equipment, net	<u>3,657,952</u>	<u>715,489</u>	<u>2,131,209</u>
Other assets:			
Bond issue cost, net	54,039	-	35,091
Bond refunding costs/escrow	<u>105,977</u>	<u>-</u>	<u>-</u>
Total other assets	<u>160,016</u>	<u>-</u>	<u>35,091</u>
Total assets	<u>\$ 5,182,676</u>	<u>\$ 1,487,355</u>	<u>\$ 2,624,452</u>

TOWN OF WELSH, LOUISIANA
PUBLIC UTILITY ENTERPRISE FUND

SCHEDULE OF NUMBER OF UTILITY CUSTOMERS
May 31, 1996

	<u>Metered</u>	<u>Unmetered</u>
Electricity:		
Industrial	11	-
Commercial	119	-
Residential	1,424	-
Demand	11	-
Water	1,283	2
Sewer	-	1,158

TOWN OF WELSH, LOUISIANA

SCHEDULE OF COMPENSATION PAID TO GOVERNING BOARD
Year Ended May 31, 1996

	<u>Salary</u>	<u>Per Diem</u>	<u>Mileage Reimbursement</u>	<u>Total</u>
Mayor:				
James P. Martin	\$ 3,750	\$ 4,200	\$ 1,459	\$ 9,409
Aldermen:				
Alexander Prudhomme, Jr.	1,875	450	110	2,435
Jimmy Cormier	1,875	100	62	2,037
Mary Sue P. Lyon	1,875	1,100	542	3,517
Betty F. Slocum	1,875	550	311	2,736
Joseph L. van Ness	<u>1,875</u>	<u>100</u>	<u>62</u>	<u>2,037</u>
	<u>\$ 13,125</u>	<u>\$ 6,500</u>	<u>\$ 2,546</u>	<u>\$ 22,171</u>

SUPPLEMENTARY INFORMATION

ADDITIONAL REPORTS

The hospital has filed its fiscal year 1991 through 1995 Medicaid cost reports utilizing the benefit of a proposed rule which has not been finalized as law. Prior to the current fiscal year a liability in the amount of \$314,906 had been established for this purpose. Recently, a final ruling has been issued whereby the amount of \$265,349 was determined not to be owed by the hospital. This amount was included in income within the current year as an extraordinary item.

Note 14. Litigation

The Town has had various claims and lawsuits lodged against it. All are within the normal course of business and have been evaluated by the Town's attorney and management. It is the opinion of legal counsel that these claims are adequately covered by.

Note 15. Landfill Joint Venture

The Town is a participant in a joint venture referred to as the Jefferson Davis Parish Sanitary Landfill Commission. This entity was chartered on February 17, 1984. The Commission's purpose is the establishment of a long-term plant for the disposal of solid wastes in Jefferson Davis Parish. According to the charter, each participant in the Commission is responsible for a pro rata share of any operating deficits. Likewise, any distributions of surpluses are also shared on a pro rata basis. Each participant's pro rata share is based on the number of households within each participant's unit to the total number of households within all participating units. These proportions were determined using the 1980 U.S. Census as follows:

<u>Locality</u>	<u>Number of Households</u>	<u>Percentages</u>
Jennings	4,161	.421196
Welsh	1,167	.118129
Lake Arthur	1,212	.122684
Parish (excluding Jennings, Welsh, Lake Arthur and Elton)	<u>3,339</u>	<u>.337991</u>
	<u>9,879</u>	<u>1.000000</u>

The Commission consists of six commissioners as follows: two residents of Jennings, one resident of Welsh, one resident of Lake Arthur, and two residents of Jefferson Davis Parish living outside the city limits of Jennings, Welsh, Lake Arthur and Elton. The Commission members are to be appointed by the governing body of their place of residence.

TOWN OF WELSH, LOUISIANA
ENTERPRISE FUNDS

COMBINING BALANCE SHEETS
May 31, 1996
With Comparative Totals for May 31, 1995
(Continued)

<u>LIABILITIES AND FUND EQUITY</u>	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>
Current liabilities:			
Current portion of long-term debt	\$ 87,636	\$ -	\$ 85,812
Bank overdraft	-	-	-
Accounts payable	164,339	184,500	195,501
Accrued liabilities	49,270	56,028	13,688
Due to other funds	108,860	-	4,400
Due to other agencies	-	<u>110,748</u>	-
Total current liabilities	<u>410,105</u>	<u>351,276</u>	<u>299,401</u>
Other liabilities:			
Long-term debt, net of current portion:			
Revenue bonds payable, certificates of indebtedness payable	1,779,250	-	1,841,758
Payable from restricted assets	<u>37,495</u>	<u>-</u>	<u>-</u>
Total other liabilities	<u>1,816,745</u>	<u>-</u>	<u>1,841,758</u>
Fund equity:			
Contributed capital	354,114	266,186	809,011
Retained earnings:			
Reserved	869,654	96,368	211,849
Unreserved:			
Undesignated	<u>1,734,058</u>	<u>773,525</u>	<u>(537,567)</u>
Total fund equity/retained earnings (deficit)	<u>2,601,712</u>	<u>869,893</u>	<u>(325,718)</u>
Total fund equity	<u>2,955,826</u>	<u>1,136,079</u>	<u>483,293</u>
Total liabilities and fund equity	<u>\$ 5,182,676</u>	<u>\$ 1,487,355</u>	<u>\$ 2,624,452</u>

COMBINING STATEMENTS

Note 17. Contributed Capital

The following is a schedule of changes in contributed capital for the year ended May 31, 1996:

	<u>Enterprise Fund</u>		Extended	
	<u>Public</u>		Care	
	<u>Utility</u>	<u>Hospital</u>	<u>Facility</u>	<u>Total</u>
Balance, June 1, 1995	\$ 354,114	\$ 267,392	\$ 847,665	\$ 1,469,171
Transfers	-	-	-	-
Other	-	(1,206)	(38,654)	(39,860)
Balance, May 31, 1996	<u>\$ 354,114</u>	<u>\$ 266,186</u>	<u>\$ 809,011</u>	<u>\$ 1,429,311</u>

Note 18. Excess of Expenditures Over Appropriations

Expenditures and other financing uses for the current year exceeded appropriations for the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>(Unfavorable)</u>
Debt Service:			
1970 Police and Fire Station Improvement Bonds	\$ -	\$ 50,911	\$ (50,911)

Note 14. Subsequent Events

In November, 1996, the Town of Welsh received approval from the State Bond Commission regarding its request to issue \$1,500,000 of Utilities Revenue Bonds, Series 1996, on a complete parity with its outstanding Utilities Revenue Bonds, Series 1988 and outstanding Utilities Revenue Refunding Bonds, Series 1995. The proceeds from these bonds will be used to assist in funding the EPA Sewer Project which is scheduled for completion by August, 1997.

Any member is eligible for normal retirement after being a member of the system for one year, if they have 20 years of creditable service and are age 50 or have 12 years of creditable service and are age 55. Benefit rates are three and one-third percent of final compensation (average monthly earnings during the highest 36 consecutive months or joined months if service is interrupted) per number of years creditable service not to exceed 100%.

Covered employees are required by state statute to contribute 8% of earnable compensation. Employer contributions are established by statute at 9% of employee's earnable compensation excluding overtime but including state supplemental pay. The contribution requirement per statutes for the Town's year ended May 31, 1996 was \$32,812, which consisted of \$15,441 paid by employees and \$17,371 paid by the Town (9% of covered payroll).

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the affects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other systems. The system does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at June 30, 1994 (latest available report) for the system as a whole, determined through an actuarial valuation performed as of that date, was \$736,846,804. The system's net assets available for benefits on that date (value at amortized cost) were \$766,365,130. The Town's contribution represented less than .05% of total contributions (as compared to the system's June 30, 1994 report) required of all participating entities.

Ten year historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1994 annual financial statements.

Generally, the monthly amount of the retirement allowance for any member of Plan B shall consist of an amount equal to two percent of the member's final compensation multiplied by his years of creditable service. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts.

Covered employees are required by state statute to contribute 5% of their salary to the plan. Employer contributions are established by statute at 3.75% of employee's salary. The contribution requirement per statutes for the Town's year ended May 31, 1996 was \$23,892, which consisted of \$12,935 paid by employees and \$10,957 paid by the Town (8.75% of covered payroll).

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other systems. The system does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at June 30, 1995 (latest available report) for the system as a whole, determined through an actuarial valuation performed as of that date, was \$65,581,563. The total net assets of Plan "B" available for benefits at June 30, 1995 was \$59,345,360. The Town's contribution represented less than .18% of total contributions (as compared to the system's June 30, 1994 report) required of all participating entities.

Ten year historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1995 annual financial statements.

Municipal and State Police Retirement System:

Membership is mandatory for any full time police officer, employed by a municipality of the State of Louisiana and engaged in law enforcement, empowered to make arrests, providing they do not have to pay social security and providing they meet the statutory criteria. This system was established by Act 189 of 1973 and amended by LRS 33:2371. This plan is a cost-sharing multiple-employer plan. The system also provides death and disability benefits. These benefits are established by state statutes. The Town's payroll covered by the system for the year ended May 31, 1996 was \$575,542; the Town's total police department payroll for the year ended May 31, 1996 was \$193,010.

In planning and performing our audit of the financial statements of the Town of Welsh, Louisiana for the year ended May 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions:

General:

- Because of the entity's size and the limited number of accounting personnel, it is not feasible to segregate duties to achieve effective internal accounting control. Management of the Town has considered this weakness and determined that it would not be cost effective to employ sufficient personnel to obtain adequate segregation of duties. Management has attempted to mitigate this weakness by its supervision and review procedures.

Town:

- During our review of the Town's internal control system, we noted that the policy and procedure manual needs to be reviewed and updated. This manual was developed several years ago and addresses many aspects of the Town's operations. It is recommended that management review this manual and update and reflect the Town's current policies and procedures in effect.

Hospital:

- During our review of pharmacy procedures, it was noted that controls over billings needs to be improved. Currently requisitions for prescriptions are prepared for each sale. The requisitions are prenumbered, but are not always used in numerical order. A control log is not being maintained to account for all requisitions issued. It is recommended that prescription

The Commission has the power and authority to employ personnel, adopt its own budget and enter into agreements necessary for the operation of the landfill. In certain instances, some agreements must be consented to by all six members of the Commission.

Condensed financial information for the Jefferson Davis Parish Sanitary Landfill as of December 31, 1995 (the latest available audited financial statements) were as follows:

	<u>Total</u>	<u>Welsh (11.8129%)</u>
Total assets	\$ 6,900,214	\$ 815,115
Total liabilities	127,704	15,085
Total equity	6,772,510	800,030
Total liabilities and equity	6,900,214	815,115
Total revenues	2,947,189	348,148
Total expenditures	2,309,699	272,842
Net increase in fund balance	638,910	75,474

As of December 31, 1995, the Commission had no long-term debt outstanding.

The Landfill Commission as owner of a sanitary landfill is subject to recent Environmental Protection Agency (EPA) regulations that require monitoring the landfill site for 30 years following closure of the site in addition to other closure requirements. These regulations also mandate that landfill owners provide financial assurances that they will have the resources available to satisfy the post closure standards. These guarantees can be third-party trusts, surety bonds, letters of credit, insurance, or state sponsored plans. According to the Commission's contract with the site operator, "...the contractor shall be responsible for closure in accordance with the permit...". Additionally, "...the contractor's post-closure care, maintenance and monitoring responsibility shall be three (3) years, or as required by law...". In the event the operator is for whatever reason unwilling or unable to fulfill this requirement, the responsibility for closure and post closure monitoring will revert back to the Commission.

Additionally, because of the industry the Commission participates in, certain potential liabilities are always present. These include, but are not limited to, environmental cleanup costs and EPA penalties for violation of its regulations. The EPA is empowered by law (through the Superfund legislation) to seek recovery from anyone who ever owned or operated a particular contaminated site, or anyone who ever generated or transported hazardous materials to a site (these parties are commonly referred to as potentially responsible parties, or PRPs). Potentially, the liability can extend to subsequent owners or to the parent company of a PRP. While there are no asserted or unasserted potential costs or penalties at the date of this report that the Commission is aware of, the potential is present.

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 6,970	\$ 1,100
117,278	258,712
<u>75,576</u>	<u>13,992</u>
<u>\$ 199,824</u>	<u>\$ 273,804</u>

\$ 167	\$ 167
<u>19,140</u>	<u>56</u>
19,307	223

<u>180,517</u>	<u>273,581</u>
<u>\$ 199,824</u>	<u>\$ 273,804</u>

	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>	<u>Total Enterprise Funds</u>
Operating grants, entitlements, and shared revenues	39,850	58,424	-	98,274
Operating transfers:				
In	69,120	-	-	69,120
Out	(278,000)	-	-	(278,000)
Net income (loss)	(4,631)	225,067	(28,381)	192,055
Interest costs:				
Total incurred	142,205	-	112,654	254,859
Net working capital	49,454	324,222	(53,098)	320,578
Total assets	5,182,676	1,487,355	2,624,452	9,294,483
Bonds and other long-term liabilities:				
Payable from operating revenues	1,779,250	-	1,841,758	3,621,008
Total equity	2,955,826	1,136,079	483,293	4,575,198

Note 13. Commitments and Contingencies

On August 21, 1990, the Town adopted a resolution authorizing the issuance of \$2,500,000 in Hospital Revenue Bonds. On September 17, 1992, a resolution amending the August 21, 1990 resolution was adopted changing the authorized amount to be issued to \$1,567,000. The loan was approved. The proceeds were used for expansion of the nursing home. On April 7, 1992, the Town adopted an additional resolution authorizing the issuance of \$330,000 of General Certificates of Indebtedness. The proceeds of this issue were received in June, 1992 and used for the nursing home expansion.

The Town is under a compliance order from the Environmental Protection Agency (EPA) to meet specific effluent limitations by August 1, 1997. Under the order the Town has entered into an agreement with the EPA to make modifications to the sewage disposal plant. The sewage disposal plant modifications are estimated to cost approximately \$2.4 million.

Note 10. Deficit Fund Balance or Retained Earnings

As of May 31, 1996, the Extended Care Facility Enterprise Fund had a deficit in retained earnings of \$(325,718). This deficit is being funded primarily by the Public Utility Enterprise Fund.

Note 11. Interfund Transactions

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. All interfund transactions of the Town except loans or advances, quasi-external transactions, and reimbursements are reflected as transfers.

Individual fund interfund receivable and payable balances at May 31, 1996 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 165,031	\$ 113,183
Special Revenue Fund:		
Sales tax	75,576	19,140
Debt Service Fund	-	61
Enterprise Funds:		
Public utility	<u>5,037</u>	<u>113,260</u>
	<u>\$ 245,644</u>	<u>\$ 245,644</u>

Note 12. Segment Information for Enterprise Funds

The Town maintains three enterprise funds which provide utilities (electricity, water and sewer), in and out patient hospital services, and extended care services for the aged. Segment information for the year ended May 31, 1996 was as follows:

	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 2,216,132	\$ 2,155,411	\$ 2,466,101	\$ 6,837,644
Depreciation and amortization	94,976	86,934	100,410	282,320
Operating income	297,905	(44,685)	73,729	326,949

(continued on next page)

Year Ending <u>May 31.</u>	<u>FMHA Water Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 32,636	\$ 49,924	\$ 82,560
1998	36,151	46,409	82,560
1999	38,048	44,512	82,560
2000-2014	<u>880,051</u>	<u>413,389</u>	<u>1,293,440</u>
	<u>\$ 986,886</u>	<u>\$ 554,234</u>	<u>\$ 1,541,120</u>

Year Ending <u>May 31.</u>	<u>Utility Revenue Bonds - Series 1995</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ -	\$ 40,250	\$ 40,250
1998	-	40,250	40,250
1999	-	40,250	40,250
2000	50,000	38,812	88,812
2001-thereafter	<u>650,000</u>	<u>183,425</u>	<u>833,425</u>
	<u>\$ 700,000</u>	<u>\$ 342,987</u>	<u>\$ 1,042,987</u>

The Utilities Revenue Bond, Series 1988 was refunded during the fiscal year which will produce an ultimate savings of \$351,316 over the life of the issue, which will be fully paid on September 1, 2008. A new bond issue in the amount of \$700,000 will be combined with funds of the Town to retire the 1988 issue on September 1, 1998. The Series 1988 issue had an interest rate of above 8% while the refunding bonds have an interest rate of 5.75%.

All issuance costs of the transaction (\$105,977) were paid with various restricted funds remaining from the Series 1988 issue. The net proceeds were used to purchase U.S. Government securities yielding 5 percent. These funds were deposited with the escrow agent to provide for debt service at September 1, 2008. These costs will be amortized over the life of the old issue (three years) beginning June 1, 1996.

The 1988 Public Utility Fund Revenue Bond Indenture requires, among other things, that the Town establish and maintain utility rates so that operating income before depreciation is at least equal to 140% of the largest amount of principal and interest maturing in any future fiscal year (\$161,280). This bond indenture also requires the establishment and maintenance of various cash funds. As of May 31, 1996, the Town remains in substantial compliance with these requirements as well as numerous other limitations and restrictions contained in this and the Hospital Bond Indenture.

The 1994 FMHA Utility Revenue Bond Indenture requires, among other things, that the Town adopt the utility rates as outlined on the bond indenture. This bond also requires the establishment and maintenance of various cash funds. As of May 31, 1996, the Town is in substantial compliance with these requirements, as well as numerous other limitations and restrictions contained in this indenture.

\$1,000,000 1994 Water Revenue Bonds, maturing December 8, 2014, principal and interest payable monthly in amount of \$6,880, interest rate of 5.125% per annum	986,876
Refunding bonds-Series 1995, maturing serially and become due September 1 of each year until final retirement September 1, 2008, interest rate at 5.75%	<u>700,000</u>
Total Enterprise Fund Debt	<u>\$ 3,794,456</u>

The annual requirements to amortize all bonded debts outstanding as of May 31, 1996 follows:

<u>Year Ending</u> <u>May 31.</u>	<u>Revenue Bond - Dated 1971</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 11,000	\$ 13,303	\$ 24,303
1998-2002	62,000	57,082	119,082
2003-2007	80,000	38,162	118,162
2008-2012	<u>100,000</u>	<u>13,975</u>	<u>113,975</u>
	<u>\$ 253,000</u>	<u>\$ 122,522</u>	<u>\$ 375,522</u>

<u>Year Ending</u> <u>May 31.</u>	<u>Utility Revenue Bonds - Series 1988</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 55,000	\$ 14,590	\$ 69,590
1998	60,000	10,190	70,190
1999	<u>65,000</u>	<u>5,330</u>	<u>70,330</u>
	<u>\$ 180,000</u>	<u>\$ 30,110</u>	<u>\$ 210,110</u>

<u>Year Ending</u> <u>May 31.</u>	<u>FMHA Hospital Revenue Bond, Series A</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 24,812	\$ 85,003	\$ 109,815
1998-2023	<u>1,494,758</u>	<u>1,358,640</u>	<u>2,853,398</u>
	<u>\$ 1,519,570</u>	<u>\$ 1,443,643</u>	<u>\$ 2,963,213</u>

<u>Year Ending</u> <u>May 31.</u>	<u>Hospital Certificate of Indebtedness</u> <u>Series 1992</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 50,000	\$ 9,620	\$ 59,620
1998-99	<u>105,000</u>	<u>10,140</u>	<u>115,140</u>
	<u>\$ 155,000</u>	<u>\$ 19,760</u>	<u>\$ 174,760</u>

Note 8. Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance</u> <u>5/31/95</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>5/31/96</u>
Buildings	\$ 360,641	\$ 12,000	\$ -	\$ 372,641
Equipment and furniture	251,387	34,548	50	285,885
Improvements other than buildings	300,910	-	-	300,910
Land	67,240	-	-	67,240
Vehicles	<u>434,473</u>	<u>175,708</u>	<u>-</u>	<u>610,181</u>
	<u>\$ 1,414,651</u>	<u>\$ 222,256</u>	<u>\$ 50</u>	<u>\$ 1,636,857</u>

Note 9. Long-Term Debt

The following is a summary of bonds payable of the Town for the year ended May 31, 1996:

	<u>Balance</u> <u>5/31/95</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>5/31/96</u>
Enterprise:				
Revenue bonds	<u>\$ 4,306,035</u>	<u>\$ -</u>	<u>\$ 511,579</u>	<u>\$ 3,794,456</u>

Bonds payable are comprised of the following:

Enterprise fund debt:

Enterprise Revenue Bonds:

\$395,000, 1971 Hospital Revenue Bonds, maturing serially and become due September 1, of each year until final retirement on September 1, 2011, interest at 5.38%	\$ 253,000
\$1,500,000, 1988 Series Public Utility Revenue Bonds, maturing serially on September 1, of each year until final retirement on September 1, 2008, at interest rate varying from 7.85% to 8.6%	180,000
\$1,567,000 FMHA loan, interest rate 4.892%, permanent financing approved by FMHA	1,519,580
\$330,000 Hospital Certificate of Indebtedness, Series 1992, interest rate varies from 5.0-6.4%, interest payments made in December and June each year, principal payments due on June 1 each year, bonds mature on June 1, 1999	155,000

(continued on next page)

Note 5. Fixed Assets

A summary of proprietary fund type property, plant and equipment at May 31, 1996 follows:

	<u>Utility</u>	<u>Hospital</u>	<u>Facility</u>	<u>Total</u>
Land	\$ 128,204	\$ 14,413	\$ -	\$ 142,617
Land improvements	-	46,073	71,125	117,198
Buildings and building components	-	580,471	2,374,029	2,954,500
Electric system	1,671,858	-	-	1,671,858
Water system	1,536,384	-	-	1,536,384
Sewer system	1,235,043	-	-	1,235,043
Equipment	-	1,254,840	341,894	1,596,734
Vehicles	-	-	30,810	30,810
Construction in progress	<u>1,518,163</u>	<u>-</u>	<u>-</u>	<u>1,518,163</u>
	6,089,652	1,895,797	2,817,858	10,803,307
Less accumulated depreciation	<u>2,431,700</u>	<u>1,180,308</u>	<u>686,649</u>	<u>4,298,657</u>
	<u>\$ 3,657,952</u>	<u>\$ 715,489</u>	<u>\$ 2,131,209</u>	<u>\$ 6,504,650</u>

Note 6. Bond Issue Cost

Bond issue costs are being amortized on the straight-line method over the life of the bonds. The following is a summary of net bond issue cost at May 31, 1996:

	<u>Public Utility</u>	<u>Extended Care Facility</u>	<u>Total</u>
Cost	\$ 70,873	\$ 51,395	\$ 122,268
Less accumulated amortization	<u>16,834</u>	<u>16,304</u>	<u>33,138</u>
	<u>\$ 54,039</u>	<u>\$ 35,091</u>	<u>\$ 89,130</u>

Note 7. Liabilities Payable From Restricted Assets

Certain cash and investments of the Town have been restricted for payment of the following:

Customer deposits	\$ 37,495
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During the year ended December 31, 1995, the Commission voted to distribute \$331,510 to the four local government bodies that participate in the Landfill Commission and funded its construction and early operations. The distributions were made in the same proportions as the original investments by the governments. For the Town of Welsh, the distribution amounted to \$39,532 which is recorded as "Jeff Davis Sanitary Landfill" in the General Fund.

Note 16. Employee Retirement Systems

The Town contributes to two state retirement systems for the benefit of its employees as follows:

Municipal Employee's Retirement System Plan B:

Membership is mandatory as a condition of employment beginning on the date employed if the employee is on permanent basis working at least thirty-five hours per week, not participating in another public funded retirement system and under age sixty (60) at date of employment. Those individuals paid jointly by a participating employer and the parish are not eligible for membership in the system. This system was established by Act 356 of the 1954 regular session of the Legislature of the State of Louisiana. This plan is a cost-sharing multiple-employer plan. The system also provides death and disability benefits. These benefits are established by state statutes. The Town's payroll covered by the system for the year ended May 31, 1996 was \$297,873; the Town's total payroll for the year ended May 31, 1996 was \$575,542.

A member of the system qualifies for retirement providing he meets one of the following criteria:

1. Age 55 with thirty (30) years of creditable service
2. Age 60 with a minimum of ten (10) or more years of creditable service.
3. Under age 60 with ten (10) years of creditable service eligible for disability benefits.
4. Survivor's benefits require twenty (20) years creditable service at death of member.

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 53,737	\$ 280,897
123,146	193,766
1,148,354	1,262,000
(223,391)	(299,320)
80,640	80,020
3,899	3,279
162,623	175,263
27,315	34,056
5,037	10,608
-	22,482
<u>1,381,360</u>	<u>1,763,051</u>
45,719	55,685
<u>1,167,647</u>	<u>1,842,866</u>
<u>1,213,366</u>	<u>1,898,551</u>
<u>6,504,650</u>	<u>6,385,572</u>
89,130	91,590
<u>105,977</u>	<u>-</u>
<u>195,107</u>	<u>91,590</u>
<u>\$ 9,294,483</u>	<u>\$ 10,138,764</u>

TOWN OF WELSH, LOUISIANA
ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS
Year Ended May 31, 1996
With Comparative Totals for Year Ended May 31, 1995
(Continued)

	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Purchase) redemption of short-term investments	517,121	53,691	(1,576)
Interest income	<u>48,549</u>	<u>4,403</u>	<u>10,544</u>
Net cash provided by (used in) investing activities	<u>565,670</u>	<u>58,094</u>	<u>8,968</u>
 Net (decrease) in cash and cash equivalents	 (13,506)	 (95,429)	 (194,455)
 Cash and cash equivalents:			
Beginning of year	<u>133,096</u>	<u>136,807</u>	<u>256,089</u>
End of year	<u>\$ 119,590</u>	<u>\$ 41,378</u>	<u>\$ 61,634</u>

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 326,949	\$ 422,300
279,865	267,175
2,455	3,544
265,349	-
36,877	(54,811)
12,640	19,041
6,704	(5,059)
36,859	(9,263)
(325,811)	396,994
(211,068)	-
<u>1,150</u>	<u>1,625</u>
<u>431,969</u>	<u>1,041,546</u>
42,432	12,317
-	(73,746)
(36,256)	165,402
69,120	-
<u>(278,000)</u>	<u>(294,000)</u>
<u>(202,704)</u>	<u>(190,027)</u>
(398,949)	(865,081)
(511,579)	(120,682)
(254,859)	(253,746)
<u>-</u>	<u>1,000,000</u>
<u>(1,165,387)</u>	<u>(239,509)</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA
ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS
Year Ended May 31, 1996
With Comparative Totals for Year Ended May 31, 1995

	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 297,905	\$ (44,685)	\$ 73,729
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	94,976	86,934	97,955
Amortization	-	-	2,455
Extraordinary gain	-	265,349	-
Changes in assets and liabilities:			
(Increase) decrease in receivables and accruals	(28,302)	53,909	11,270
(Increase) decrease in inventories	(8,236)	22,436	(1,560)
(Increase) decrease in prepaid expenses	(613)	9,544	(2,227)
(Increase) decrease in due from other funds	9,974	17,622	9,263
Increase (decrease) in accounts payable and accruals	17,407	(262,221)	(80,997)
(Decrease) in amounts due to other agencies	-	(211,068)	-
Increase in liabilities payable from restricted assets	<u>1,150</u>	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>384,261</u>	<u>(62,180)</u>	<u>109,888</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) decrease in due from other funds	46,432	-	(4,000)
Increase in amounts due to other funds	-	-	-
Contributed capital	-	(1,206)	(35,050)
Operating transfers in	69,120	-	-
Operating transfers out	<u>(278,000)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>(162,448)</u>	<u>(1,206)</u>	<u>(39,050)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(225,670)	(90,137)	(83,142)
Principal paid on bonds	(433,114)	-	(78,465)
Interest paid on bonds and capital lease obligations	(142,205)	-	(112,654)
Revenue bond proceeds	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used in) capital and related financing activities	<u>(800,989)</u>	<u>(90,137)</u>	<u>(274,261)</u>

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 7,138,894	\$ 7,092,153
(61,151)	(81,024)
(464,164)	(445,972)
2,130	2,808
79,664	77,383
98,274	82,140
<u>43,997</u>	<u>37,662</u>
<u>6,837,644</u>	<u>6,765,150</u>
1,823,251	1,588,308
2,113,162	2,220,657
2,291,962	2,263,166
279,865	267,175
<u>2,455</u>	<u>3,544</u>
<u>6,510,695</u>	<u>6,342,850</u>
<u>326,949</u>	<u>422,300</u>
(254,859)	(253,746)
<u>63,496</u>	<u>57,735</u>
<u>(191,363)</u>	<u>(196,011)</u>
135,586	226,289
<u>265,349</u>	<u>-</u>
<u>400,935</u>	<u>226,289</u>
69,120	-
<u>(278,000)</u>	<u>(294,000)</u>
<u>(208,880)</u>	<u>(294,000)</u>
192,055	(71,711)
<u>2,953,832</u>	<u>3,021,543</u>
<u>\$ 3,145,887</u>	<u>\$ 2,953,832</u>

TOWN OF WELSH, LOUISIANA
ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Year Ended May 31, 1996
With Comparative Totals for Year Ended May 31, 1995

	<u>Public Utility</u>	<u>Hospital</u>	<u>Extended Care Facility</u>
Operating revenues:			
Charges for services	\$ 2,144,344	\$ 2,521,755	\$ 2,472,795
Provision for bad debts	(7,574)	(46,883)	(6,694)
Contractual allowances	-	(464,164)	-
Tap fees	2,130	-	-
Property taxes	-	79,664	-
Grants and contributions	39,850	58,424	-
Miscellaneous	<u>37,382</u>	<u>6,615</u>	<u>-</u>
Total operating revenues	<u>2,216,132</u>	<u>2,155,411</u>	<u>2,466,101</u>
Operating expenses:			
Public utility	1,823,251	-	-
Hospital	-	2,113,162	-
Extended care facility	-	-	2,291,962
Depreciation	94,976	86,934	97,955
Amortization	<u>-</u>	<u>-</u>	<u>2,455</u>
Total operating expenses	<u>1,918,227</u>	<u>2,200,096</u>	<u>2,392,372</u>
Operating income	<u>297,905</u>	<u>(44,685)</u>	<u>73,729</u>
Nonoperating revenues (expenses):			
Interest expense	(142,205)	-	(112,654)
Interest income	<u>48,549</u>	<u>4,403</u>	<u>10,544</u>
Total nonoperating revenues (expenses)	<u>(93,656)</u>	<u>4,403</u>	<u>(102,110)</u>
Income (loss) before operating transfers and extraordinary gain	204,249	(40,282)	(28,381)
Extraordinary gain - removal of medicaid reserve	<u>-</u>	<u>265,349</u>	<u>-</u>
Income (loss) before operating transfers	<u>204,249</u>	<u>225,067</u>	<u>(28,381)</u>
Operating transfer:			
Operating transfers in	69,120	-	-
Operating transfers (out)	<u>(278,000)</u>	<u>-</u>	<u>-</u>
Total operating transfers	<u>(208,880)</u>	<u>-</u>	<u>-</u>
Net income (loss)	(4,631)	225,067	(28,381)
Retained earnings (deficit) at beginning of year	<u>2,606,343</u>	<u>644,826</u>	<u>(297,337)</u>
Retained earnings (deficit) at end of year	<u>\$ 2,601,712</u>	<u>\$ 869,893</u>	<u>\$ (325,718)</u>

SPECIAL REVENUE FUNDS

SALES TAX FUND - to account for the collection of the 1% sales and use tax which is to be used for purposes approved by the Mayor and Board of Aldermen.

FEDERAL REVENUE SHARING FUND - to account for the revenues and expenditures of the federal revenue sharing program as required by federal regulations.

LOCAL GOVERNMENT ASSISTANCE - to account for the revenue received from the State of Louisiana Local Government Assistance Fund. The Town must submit a report to each member of its legislative delegation on the proposed use of these funds prior to the commitment of such funds.

PAVING PROJECTS FUNDS - all three special assessment funds are used to account for special assessments levied to finance the cost of paving the streets in certain areas within the Town deemed to benefit the properties against which the assessments are levied. All liabilities of these funds have been retired as of year end. The paving certificates of the 1967 fund were retired on March 1, 1982. The bonds of the 1973 fund were retired on November 1, 1983. The 1979 fund repaid its borrowed funds during fiscal 1985.

TOWN OF WELSH, LOUISIANA
SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET
May 31, 1996
With Comparative Totals for May 31, 1995

<u>ASSETS</u>	<u>Sales Tax</u>	<u>Federal Revenue Sharing</u>	<u>Local Government Assistance</u>
Cash	\$ 6,872	\$ 98	\$ -
Investments, at cost	60,636	9,200	47,442
Due from other funds	<u>75,576</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 143,084</u>	<u>\$ 9,298</u>	<u>\$ 47,442</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 167	\$ -	\$ -
Due to other funds	<u>19,084</u>	<u>56</u>	<u>-</u>
Total liabilities	19,251	56	-
Fund balances:			
Unreserved:			
Undesignated	<u>123,833</u>	<u>9,242</u>	<u>47,442</u>
Total liabilities and fund balances	<u>\$ 143,084</u>	<u>\$ 9,298</u>	<u>\$ 47,442</u>

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 569,236	\$ (465,191)
<u>63,496</u>	<u>57,735</u>
<u>632,732</u>	<u>(407,456)</u>
(303,390)	204,554
<u>525,992</u>	<u>321,438</u>
<u>\$ 222,602</u>	<u>\$ 525,992</u>

ENTERPRISE FUNDS

HOSPITAL AND EXTENDED CARE FACILITY - to account for all services provided for patients and the aged. All activities necessary to provide such services are provided in these funds, including, but not limited to, administration, operations, maintenance, financing, billing and collection.

PUBLIC UTILITY FUND - to account for the provision of electricity, water, and sewer services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

TOWN OF WELSH, LOUISIANA
DEBT SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended May 31, 1996
With Comparative Actual Amounts for Year Ended May 31, 1995

	1959 Hospital Serial <u>Bond</u>	1970 Police and Fire Station Improvement <u>Bond</u>	<u>Totals</u>	
			<u>1996</u>	<u>1995</u>
Revenues:				
Interest income	\$ 874	\$ 584	\$ 1,458	\$ 2,483
Expenditures:				
General government	-	50,911	50,911	-
Excess of revenues over expenditures	874	(50,327)	(49,453)	2,483
Other financing sources (uses):				
Operating transfer out	-	-	-	(21,000)
Excess of revenues over expenditures and other uses	874	(50,327)	(49,453)	(18,517)
Fund balances at beginning of year	<u>18,682</u>	<u>50,086</u>	<u>68,768</u>	<u>87,526</u>
Fund balances at end of year	<u>\$ 19,556</u>	<u>\$ (241)</u>	<u>\$ 19,315</u>	<u>\$ 68,768</u>

TOWN OF WELSH, LOUISIANA
DEBT SERVICE FUNDS

COMBINING BALANCE SHEET
May 31, 1996
With Comparative Totals for May 31, 1995

	1959 Hospital Serial Bond	1970 Police and Fire Station Improvement Bond	<u>Totals</u>	
<u>ASSETS</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Investments, at cost	\$ 19,556	\$ -	\$ 19,556	\$ 69,009
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Due to other fund	\$ -	\$ 61	\$ 61	\$ 61
Interest payable	-	180	180	180
	-	241	241	241
 Fund balances:				
Unreserved:				
Undesignated	19,556	(241)	19,315	68,768
 Total liabilities and fund balances	<u>\$ 19,556</u>	<u>\$ -</u>	<u>\$ 19,556</u>	<u>\$ 69,009</u>

DEBT SERVICE FUNDS

1959 HOSPITAL SERIAL BOND FUND - to accumulate monies for the payment of the 1959 \$209,000 3.3 percent Hospital Serial Bonds. These bonds, which were being serviced by ad valorem taxes, were paid off on April 1, 1984.

1970 POLICE AND FIRE STATION IMPROVEMENT BOND FUND - to accumulate monies for the payment of the 1969 \$125,000 6.0 percent Police and Fire Station Improvement Serial Bonds (Series St-1). This issue is being serviced with the proceeds of the Town's 1% sales and use tax. The remaining balance is due in annual installments of \$1,000 through October 1, 1993.

<u>Paving Projects</u>	<u>Totals</u>	
	<u>1996</u>	<u>1995</u>
\$ -	\$ 234,224	\$ 216,671
-	7,693	9,251
-	<u>241,917</u>	<u>225,922</u>
-	4,933	5,591
-	-	10,309
-	<u>4,933</u>	<u>15,900</u>
-	236,984	210,022
<u>(10,196)</u>	<u>(330,048)</u>	<u>(212,000)</u>
(10,196)	(93,064)	(1,978)
<u>10,196</u>	<u>273,581</u>	<u>275,559</u>
<u>\$ -</u>	<u>\$ 180,517</u>	<u>\$ 273,581</u>

TOWN OF WELSH, LOUISIANA
SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended May 31, 1996
With Comparative Totals for Year Ended May 31, 1995

	<u>Sales Tax</u>	<u>Federal Revenue Sharing</u>	<u>Local Government Assistance</u>
Revenues:			
Taxes	\$ 234,224	\$ -	\$ -
Interest income	<u>3,511</u>	<u>289</u>	<u>3,893</u>
Total revenues	<u>237,735</u>	<u>289</u>	<u>3,893</u>
 Expenditures:			
General government	4,933	-	-
Street	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>4,933</u>	<u>-</u>	<u>-</u>
 Excess (deficiency) of revenues over expenditures	 232,802	 289	 3,893
 Other financing sources (uses):			
Operating transfers out	<u>(231,500)</u>	<u>(912)</u>	<u>(87,440)</u>
 Excess (deficiency) of revenues over expenditures and other uses	 1,302	 (623)	 (83,547)
 Fund balances at beginning of year	 <u>122,531</u>	 <u>9,865</u>	 <u>130,989</u>
 Fund balances at end of year	 <u>\$ 123,833</u>	 <u>\$ 9,242</u>	 <u>\$ 47,442</u>

<u>Totals</u>	
<u>1996</u>	<u>1995</u>
\$ 173,448	\$ 227,929
-	4,356
544,340	716,716
118,986	268,065
113,260	62,428
<u>110,748</u>	<u>321,816</u>
<u>1,060,782</u>	<u>1,601,310</u>
3,621,008	4,078,106
<u>37,495</u>	<u>36,345</u>
<u>3,658,503</u>	<u>4,114,451</u>
1,429,311	1,469,171
1,175,871	1,862,206
<u>1,970,016</u>	<u>1,091,626</u>
<u>3,145,887</u>	<u>2,953,832</u>
<u>4,575,198</u>	<u>4,423,003</u>
<u>\$ 9,294,483</u>	<u>\$ 10,138,764</u>

Proprietary Fund Type Enterprise	Account Group	Totals	
	General Fixed Assets	(Memorandum Only)	
		1996	1995
\$ -	\$ -	\$ -	\$ 4,356
544,340	-	601,442	773,190
118,986	-	118,986	277,728
113,260	-	245,644	70,614
110,748	-	110,748	321,816
3,794,456	-	3,794,456	4,306,035
-	-	-	5,425
37,495	-	37,495	36,345
<u>4,719,285</u>	<u>-</u>	<u>4,908,771</u>	<u>5,795,509</u>
1,429,311	-	1,429,311	1,469,171
-	1,636,857	1,636,857	1,414,650
1,175,871	-	1,175,871	1,862,206
1,970,016	-	1,970,016	1,091,626
-	-	478,424	667,711
<u>3,145,887</u>	<u>-</u>	<u>3,624,311</u>	<u>3,621,543</u>
<u>4,575,198</u>	<u>1,636,857</u>	<u>6,690,479</u>	<u>6,505,364</u>
<u>\$ 9,294,483</u>	<u>\$ 1,636,857</u>	<u>\$ 11,599,250</u>	<u>\$ 12,300,873</u>

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Welsh, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The financial information for the preceding year, which is included for comparative purposes, was taken from the financial report for that year in which we expressed an unqualified opinion on the general purpose, combining and supplemental information for the Town of Welsh, Louisiana.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 1996, on our consideration of the Town of Welsh's internal control structure and reports dated October 28, 1996, on its compliance with laws and regulations.

Mc Elroy, Quirk & Burch

Lake Charles, Louisiana
October 28, 1996

ACCOUNT GROUPS

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 funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources" during a period. Fixed assets used in governmental fund type operations (general fixed assets) should be accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the Governmental Funds.

The two account groups mentioned above are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Public utility:	
Plant and equipment	50 years
Hospital and Extended Care Facility:	
Building and improvements	10-50 years
Equipment	5-25 years
Land improvements	15-20 years

requisitions be three part numerical forms. These forms should be used in numerical order and a control log should be maintained to account for each requisition. The requisitions should be distributed as follows: one copy maintained in the pharmacy for reference; copy two and three should be sent to the cashier to be held in a pending file until the prescription is paid for. After the prescription has been paid for, one copy should be marked paid and given to the customer, the final copy should be used as supporting documents for making the bank deposit. Bank deposit should be made daily by accounting office personnel independent of the cashier function. Additionally, it is recommended that pharmacy requisitions be paid for by customers on a cash and carry basis.

- Our review of the dietary collections procedures indicated the need to improve controls over deposits. Dietary collections should be turned in daily to the cashier. A control log should be maintained indicating the names of all persons purchasing meals. The log should contain the date, the customer name and amount paid. Deposits should be made daily by accounting department personnel independent of the cashier function. A copy of the control log should be submitted to the cashier with the daily collections as supporting documentation of the funds collected.
- During our review of the daily deposits, it was noted that receipts are generally prepared for all window deposits. However, it was noted that some receipts did not indicate whether the collections were in cash or by check. It is recommended that all receipts indicate the nature of the collection on the receipt. Deposits for window receipts should be made by accounting personnel independent of the cashier function. Additionally, the components of the deposit, i.e., cash and checks, should be compared to the receipts to insure that cash and checks deposited agree with actual receipts.
- It is recommended that all cash drawers be counted and reconciled daily. A reconciliation form should be developed to document this process. Additionally, it is recommended that management spot check cash drawers on a random basis to insure that proper procedures are being followed.
- During our review of deposits, we noted numerous employee checks being cashed through the cashier's drawer. It is generally not a good policy to allow employees to cash personal checks through company cash funds. Our review noted several checks for employees that were being held in the cash drawer. If checks are not deposited timely, the result is an interest free loan to that employee. It is recommended that employees be strictly prohibited from cashing checks through hospital funds.

TOWN OF WELSH, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

May 31, 1996

Note 1: Summary of Significant Accounting Policies

The Town of Welsh, Louisiana was incorporated September 4, 1951, under the provisions of the Lawrason Act. The Town operates under a Mayor-Board of Aldermen form of government.

The accounting and reporting policies of the Town of Welsh, Louisiana conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the *Louisiana Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

The following is a summary of certain significant accounting policies.

A. Financial Reporting Entity

The accompanying financial statements include the various departments, activities, and organizational units that are within the control and authority of the Mayor and Board of Aldermen of the Town of Welsh, Louisiana. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement No. 14 of the Governmental Accounting Standards Board. This statement defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Consistent with this criteria, the Town of Welsh, Louisiana has determined that the Welsh General Hospital and Welsh Extended Care Facility are component units of the Town.

Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Changes to FASB statements and interpretations, APB Opinions and ARBs issued after November 30, 1989, would not apply unless adopted by GASB.

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

D. Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 15, the Town Clerk submits to the Mayor and Town Council a proposed operating budget for the fiscal year commencing the following June 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at Town Hall to obtain comments from the public.
3. Prior to May 31, the budget is legally enacted through passage of an ordinance.
4. Amendments to the budget are approved by the Town Council by a formal adoption of an ordinance.
5. Formal budgetary integration is employed as a management control device during the year for the General, Sales Tax, Federal Revenue Sharing, Local Government Assistance and Paving Projects Funds.
6. Any revisions that alter total expenditures of any fund must be approved by the aldermen. Expenditures cannot legally exceed appropriations on a fund level.
7. The Town does not utilize encumbrance accounting.
8. Budget appropriations lapse at year end.

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Years Ended May 31, 1996 and 1995

	<u>Enterprise Funds</u>	
	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 326,949	\$ 422,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	279,865	267,175
Amortization	2,455	3,544
Extraordinary item - Medicare adjustment	265,349	-
Net change in assets and liabilities:		
(Increase) decrease in receivables and accruals	36,877	(54,811)
Decrease in inventories	12,640	19,041
(Increase) decrease in prepaid expenses	6,704	(5,059)
(Increase) decrease in due from other agencies	36,859	(9,263)
Increase (decrease) in accounts payable and accruals	(325,811)	396,994
(Decrease) in amounts due to other agencies	(211,068)	-
Increase (decrease) in liabilities payable from restricted assets	<u>1,150</u>	<u>1,625</u>
Net cash provided by operating activities	<u>431,969</u>	<u>1,041,546</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Decrease in due from other funds	42,432	12,317
(Decrease) in amounts due to other funds	-	(73,746)
Contributed capital	(36,256)	165,402
Operating transfers in	69,120	-
Operating transfers (out)	<u>(278,000)</u>	<u>(294,000)</u>
Net cash (used in) noncapital financing activities	<u>(202,704)</u>	<u>(190,027)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of fixed assets	(398,949)	(865,081)
Principal paid on bonds	(511,579)	(120,682)
Interest paid on bonds and capital lease obligations	(254,859)	(253,746)
Revenue bond proceeds	<u>-</u>	<u>1,000,000</u>
Net cash (used in) capital and related financing activities	<u>(1,165,387)</u>	<u>(239,509)</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
Years Ended May 31, 1996 and 1995

	<u>Enterprise Funds</u>	
	<u>1996</u>	<u>1995</u>
Operating revenues:		
Charges for services	\$ 7,138,894	\$ 7,092,153
Provision for bad debts	(61,151)	(81,024)
Contractual allowances	(464,164)	(445,972)
Property taxes	79,664	77,383
Grants and contributions	98,274	82,140
Miscellaneous	<u>46,127</u>	<u>40,470</u>
Total operating revenues	<u>6,837,644</u>	<u>6,765,150</u>
Operating expenses:		
Public utility	1,823,251	1,588,308
Hospital	2,113,162	2,220,657
Extended care facility	2,291,962	2,263,166
Depreciation	279,865	267,175
Amortization	<u>2,455</u>	<u>3,544</u>
Total operating expenses	<u>6,510,695</u>	<u>6,342,850</u>
Operating income	<u>326,949</u>	<u>422,300</u>
Nonoperating revenues (expenses):		
Interest expense	(254,859)	(253,746)
Interest income	<u>63,496</u>	<u>57,735</u>
Total nonoperating revenues (expenses)	<u>(191,363)</u>	<u>(196,011)</u>
Income before operating transfers and extraordinary gain	135,586	226,289
Extraordinary gain - removal of medicaid reserve	<u>265,349</u>	<u>-</u>
Income before operating transfers	<u>400,935</u>	<u>226,289</u>
Operating transfers:		
Operating transfers in	69,120	-
Operating transfers (out)	<u>(278,000)</u>	<u>(294,000)</u>
Total operating transfers	<u>(208,880)</u>	<u>(294,000)</u>
Net income (loss)	192,055	(67,711)
Retained earnings at beginning of year	<u>2,953,832</u>	<u>3,021,543</u>
Retained earnings at end of year	<u>\$ 3,145,887</u>	<u>\$ 2,953,832</u>

See accompanying notes to financial statements

<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>		
<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 216,671	\$ 234,224	\$ 17,553	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
8,880	7,693	(1,187)	2,483	1,458	(1,025)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>225,551</u>	<u>241,917</u>	<u>16,366</u>	<u>2,483</u>	<u>1,458</u>	<u>(1,025)</u>
5,592	4,933	659	21,000	-	21,000
-	-	-	-	-	-
-	-	-	-	50,911	(50,911)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>5,592</u>	<u>4,933</u>	<u>659</u>	<u>21,000</u>	<u>50,911</u>	<u>(29,911)</u>
<u>219,959</u>	<u>236,984</u>	<u>17,025</u>	<u>(18,517)</u>	<u>(49,453)</u>	<u>(30,936)</u>
-	-	-	-	-	-
<u>(222,308)</u>	<u>(330,048)</u>	<u>(107,740)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(222,308)</u>	<u>(330,048)</u>	<u>(107,740)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(2,349)	(93,064)	(90,715)	(18,517)	(49,453)	(30,936)
<u>54,559</u>	<u>273,581</u>	<u>219,022</u>	<u>88,860</u>	<u>68,768</u>	<u>(20,092)</u>
<u>\$ 52,210</u>	<u>\$ 180,517</u>	<u>\$ 128,307</u>	<u>\$ 70,343</u>	<u>\$ 19,315</u>	<u>\$ (51,028)</u>

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES-BUDGET (GAAP BASIS) AND ACTUAL-ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 84,150	\$ 97,036	\$ 12,886
Licenses and permits	69,500	73,513	4,013
Intergovernmental	38,500	43,112	4,612
Charges for services	131,800	142,185	10,385
Fines and forfeits	18,000	18,219	219
Interest income	15,000	8,820	(6,180)
Video machine commission	17,564	22,750	5,186
Grants	133,260	185,482	52,222
Landfill services	20,000	39,532	19,532
Miscellaneous	<u>3,647</u>	<u>10,589</u>	<u>6,942</u>
Total revenues	<u>531,421</u>	<u>641,238</u>	<u>109,817</u>
Expenditures:			
Current:			
General government	256,247	237,416	18,831
Police	310,198	315,420	(5,222)
Fire	258,280	203,078	55,202
Street	156,228	123,111	33,117
Sanitation	120,870	93,454	27,416
Recreation	82,207	71,024	11,183
Cemeteries	5,000	5,438	(438)
Airport	13,125	159,796	(146,671)
Health and welfare	14,266	12,905	1,361
Economic development	<u>15,000</u>	<u>5,294</u>	<u>9,706</u>
Total expenditures	<u>1,231,421</u>	<u>1,226,936</u>	<u>4,485</u>
Excess (deficiency) of revenues over expenditures	<u>(700,000)</u>	<u>(585,698)</u>	<u>114,302</u>
Other financing sources (uses):			
Operating transfers in	700,000	538,928	(161,072)
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>700,000</u>	<u>538,928</u>	<u>(161,072)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	-	(46,770)	(46,770)
Fund balance at beginning of year	<u>325,362</u>	<u>325,362</u>	<u>-</u>
Fund balance at end of year	<u>\$ 325,362</u>	<u>\$ 278,592</u>	<u>\$ (46,770)</u>

See accompanying notes to financial statements

C. 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 measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using a financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet and increases or decreases in net current assets are presented in the operating statements. These funds utilize the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Certain revenues such as sales tax, property tax, and charges for services are assessed and collected in such a manner that they can be accrued appropriately. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for principal and interest on general long-term debt which are recognized when due. Also, expenditures for accrued compensated absences are not recognized until they are payable from current available financial resources.

The proprietary fund is accounted for and reported using a flow of economic resources measurement focus. This means that all assets and liabilities associated with the operation of these funds are included on the balance sheet and fund equity consists of contributed capital and retainage earnings. The operating statements for the proprietary fund presents increases or decreases in net total assets.

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

The Governmental Accounting Standards Board (GASB) Statement Number 20 (effective for financial statements for periods beginning after December 15, 1993) provides guidance on accounting and financial reporting for proprietary fund types and allows proprietary fund types to choose one of two options in applying pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989. The Town of Welsh has elected to use the first option for reporting its activities. This approach applies all GASB pronouncements and FASB

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 Year Ended May 31, 1996

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>	
				<u>1996</u>	<u>1995</u>
Revenues:					
Taxes	\$ 97,036	\$ 234,224	\$ -	\$ 331,260	\$ 301,089
Licenses and permits	73,513	-	-	73,513	71,558
Intergovernmental	43,112	-	-	43,112	40,011
Charges for services	142,185	-	-	142,185	146,847
Fines and forfeits	18,219	-	-	18,219	21,436
Interest income	8,820	7,693	1,458	17,971	16,821
Video machine commission	22,750	-	-	22,750	21,794
Jeff Davis Sanitary Landfill	39,532	-	-	39,532	177,193
Grants	185,482	-	-	185,482	135,760
Miscellaneous	10,589	-	-	10,589	3,100
Total revenues	<u>641,238</u>	<u>241,917</u>	<u>1,458</u>	<u>884,613</u>	<u>935,609</u>
Expenditures:					
Current:					
General government	237,416	4,933	-	242,349	203,709
Police	315,420	-	-	315,420	328,923
Fire	203,078	-	50,911	253,989	90,476
Street	123,111	-	-	123,111	108,286
Sanitation	93,454	-	-	93,454	126,317
Recreation	71,024	-	-	71,024	69,254
Cemeteries	5,438	-	-	5,438	7,981
Airport	159,796	-	-	159,796	117,070
Health and welfare	12,905	-	-	12,905	9,404
Economic development	5,294	-	-	5,294	6,664
Total expenditures	<u>1,226,936</u>	<u>4,933</u>	<u>50,911</u>	<u>1,282,780</u>	<u>1,068,084</u>
Excess (deficiency) of revenues over expenditures	<u>(585,698)</u>	<u>236,984</u>	<u>(49,453)</u>	<u>(398,167)</u>	<u>(132,475)</u>

(continued on next page)

B. Fund Accounting

The accounts of the Town 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 purposes 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 generic fund types and broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUNDS

Enterprise Funds - 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 goods or 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 periodic determination of revenues earned; expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

TOWN OF WELSH, LOUISIANA

COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS

May 31, 1996

With Comparative Totals for May 31, 1995

(Continued)

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>LIABILITIES</u>			
Bank overdraft	\$ -	\$ -	\$ -
Accounts payable	56,755	167	180
Accrued liabilities	-	-	-
Due to other funds	113,183	19,140	61
Due to other agencies	-	-	-
Long-term debt:			
Revenue bonds payable	-	-	-
Accrued compensated absences	-	-	-
Payable from restricted assets	-	-	-
Total liabilities	<u>169,938</u>	<u>19,307</u>	<u>241</u>
 <u>FUND EQUITY</u>			
Contributed capital	-	-	-
Investment in general fixed assets	-	-	-
Retained earnings:			
Reserved	-	-	-
Unreserved:			
Undesignated	-	-	-
Fund balance:			
Unreserved:			
Undesignated	<u>278,592</u>	<u>180,517</u>	<u>19,315</u>
Total retained earnings/fund balance	<u>278,592</u>	<u>180,517</u>	<u>19,315</u>
Total fund equity	<u>278,592</u>	<u>180,517</u>	<u>19,315</u>
Total liabilities and fund equity	<u>\$ 448,530</u>	<u>\$ 199,824</u>	<u>\$ 19,556</u>

See accompanying notes to financial statements

Proprietary Fund Type <u>Enterprise</u>	Account Group	Totals	
	General Fixed Assets	(Memorandum Only)	
		<u>1996</u>	<u>1995</u>
\$ 53,739	\$ -	\$ 107,804	\$ 292,337
123,146	-	480,517	849,059
-	-	2,978	2,779
1,148,359	-	1,161,248	1,274,516
(223,391)	-	(223,391)	(299,320)
80,640	-	80,640	80,020
5,037	-	245,644	70,614
-	-	-	22,482
3,899	-	3,899	3,279
162,623	-	162,623	175,263
27,310	-	27,310	34,056
45,719	-	45,719	55,685
1,167,647	-	1,167,647	1,842,866
6,504,648	1,636,857	8,141,505	7,800,222
89,130	-	89,130	91,590
105,977	-	105,977	-
-	-	-	5.425
<u>\$ 9,294,483</u>	<u>\$ 1,636,857</u>	<u>\$ 11,599,250</u>	<u>\$ 12,300,873</u>

(continued on next page)

TOWN OF WELSH, LOUISIANA

COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS

May 31, 1996

With Comparative Totals for May 31, 1995

ASSETS	Governmental Fund Type		
	General	Special Revenue	Debt Service
Cash and cash equivalents	\$ 27,539	\$ 6,970	\$ 19,556
Investments	240,093	117,278	-
Receivables:			
Taxes	2,978	-	-
Accounts	12,889	-	-
Estimated uncollectibles and allowances	-	-	-
Unbilled accounts	-	-	-
Due from other funds	165,031	75,576	-
Due from other agencies	-	-	-
Accrued interest	-	-	-
Inventory, at cost	-	-	-
Prepaid expenses	-	-	-
Restricted assets:			
Cash	-	-	-
Investments	-	-	-
Property, plant and equipment, net	-	-	-
Bond issue cost, net	-	-	-
Bond refunding cost	-	-	-
Amount to be provided for accrued compensated absences	-	-	-
Total assets	\$ 448,530	\$ 199,824	\$ 19,556

COMBINED STATEMENTS - OVERVIEW
("LIFTABLE" GENERAL PURPOSE
FINANCIAL STATEMENTS)

Credit risk categories:

The Town's deposits and investments are categorized above in accordance with GASB Statement No. 3 to give an indication of the level of risk assumed at year end. Category 1, which represents the lowest level of risk, includes investments and deposits that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments with the securities held by the financial institution's trust department or agent in the Town's name. Category 3, which represents the greatest level of risk, includes uninsured and unregistered investments or deposits which are not protected by collateral, or for which securities are not held in the Town's name. Categories 2 and 3 were not applicable to any deposits or investments at any time during the fiscal year ended May 31, 1996.

Note 3. Due From Other Agencies

The amount of \$110,748 shown as due to other agencies (net) in the Enterprise Funds represents the amounts due from/to Medicare and Medicaid per cost reports. These cost reports are subject to audit and retroactive adjustments by Medicare and Medicaid.

Note 4. Restricted Assets

Assets were restricted for the following purposes as of May 31, 1996:

Public utility:

Customer deposits	\$ 8,612
Sewer and water system construction in progress	669,250
Revenue bond sinking fund, 1988 series	101,487
Revenue bond reserve fund, 1988 series	110,905
Revenue bond sinking fund, 1994 series	7,908
Revenue bond reserve fund, 1994 series	<u>6,987</u>
	<u>905,149</u>

Hospital:

Hospital repairs and operations-property tax monies	<u>96,368</u>
---	---------------

Extended Care Facility:

Retirement of revenue bonds-certificates of indebtedness, FMHA bonds	50,015
Repair and replacement reserve for \$395,000 revenue bonds dated September 1, 1971	14,163
Reserve, contingency fund-certificates of indebtedness, FMHA bonds	<u>147,671</u>
	<u>211,849</u>

Total-all proprietary fund types \$ 1,213,366

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TOWN OF WELSH, LOUISIANA
ANNUAL FINANCIAL REPORT
MAY 31, 1996

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 ~~DEC 7 7 1996~~

TOWN OF WELSH, LOUISIANA

ANNUAL FINANCIAL REPORT
Year Ended May 31, 1996

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TOWN OF WELSH, LOUISIANA

May 31, 1996

MAYOR

The Honorable James P. Martin

BOARD OF ALDERMEN

Jimmy Cormier
Mary Sue P. Lyon
Alexander Prudhomme, Jr.

Betty F. Slocum
Joseph L. "Joe" van Ness

LEGAL COUNSEL

Richard M. Arceneaux

TOWN CLERK

Shirley Meche

MCELROY, QUIRK & BURCH

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the accompanying general purpose financial statements of the Town of Welsh, Louisiana, as of May 31, 1996, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Welsh, Louisiana management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned general purpose financial statements present fairly, in all material respects, the financial position of the Town of Welsh, Louisiana as of May 31, 1996, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 Year Ended May 31, 1996
 (Continued)

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>	
				<u>1996</u>	<u>1995</u>
Other financing sources (uses):					
Operating transfers in	538,928	-	-	538,928	527,000
Operating transfers out	-	(330,048)	-	(330,048)	(233,000)
Total other financing sources (uses)	<u>538,928</u>	<u>(330,048)</u>	<u>-</u>	<u>208,880</u>	<u>294,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(46,770)	(93,064)	(49,453)	(189,287)	161,525
Fund balance at beginning of year	<u>325,362</u>	<u>273,581</u>	<u>68,768</u>	<u>667,711</u>	<u>506,186</u>
Fund balance at end of year	<u>\$ 278,592</u>	<u>\$ 180,517</u>	<u>\$ 19,315</u>	<u>\$ 478,424</u>	<u>\$ 667,711</u>

See accompanying notes to financial statements

TOWN OF WELSH, LOUISIANA

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Year Ended May 31, 1996

	<u>CFDA</u> <u>Number</u>	<u>Grant</u> <u>Award</u>	<u>Grant</u> <u>Revenues</u>	<u>Grant</u> <u>Expenditures</u>
Department of Agriculture: Farmers Home Administration	-	\$ *	\$ -	\$ -

- Loan balance outstanding as of May 31, 1996 \$1,519,580

- During our review of the cashier drawer, it was noted that both the petty cash fund and cashier drawer are maintained in the same cash drawer. It is recommended that the petty cash fund be maintained separately from the cashier drawer. All petty cash reimbursement checks should be made out to petty cash and cashed at the bank. All petty cash reimbursements should be reviewed in detail by the person signing the petty cash reimbursement check. All petty cash vouchers and receipts should be canceled to avoid possible resubmission.
- During our review of NSF check processing, it was noted that NSF checks are held in a cash drawer until collections are made. It is recommended that all NSF checks be charged back to the appropriate receivable account as soon as they are received from the bank. NSF checks should not be handled by personnel who post to accounts receivable accounts. The journal entry to record such charge backs should be done by accounting personnel independent of the receivable function.
- We recommend the continued review of bank reconciliations and bank statements by management on a monthly basis to insure proper oversight regarding the reconciliation process.
- We noted two instances of incorrect coding on third party reimbursement at the nursing home which resulted in no billings issued for extended periods of time. We recommend that additional procedures be implemented to insure that billings are done on a timely basis. Management should take additional steps in reviewing exception reports to determine that all services are billed appropriately.
- During our review of accounts receivable, we noted several overpayments on accounts that had not been set up to be refunded on a timely basis. We recommend that management review credit balances monthly and that any overpayments be investigated and if required refunded on at least a quarterly basis.

Other comments:

- We recommend cross-training of accounting personnel. Each position should have an individual that is assigned the responsibility of the position and an individual that is trained as a back-up to the position in the event of illness or other absences from work of the primary individual. We further recommend that each employee be required to take at least one week's vacation at one time each year.

- All checks prepared for signature should be presented to the authorized signer along with the supporting documentation for the check. No check should be signed until the signer has reviewed the accompanying invoice and signs documentation. We recommend no vendor be paid from a statement. Vendors should be paid from invoices only to assist in eliminating duplicate payment of the same invoice.
- Collections on accounts receivable at the hospital have improved over last year. Our review indicated that the hospital management is taking aggressive steps in its collection procedures in an effort to collect all funds possible. Accounts receivable collection efforts have resulted in a decrease of over \$125,000 in the accounts receivable. This collection effort has also increased cash flow. Management has used the increased cash flow to substantially reduce the accounts payable and accrued liabilities at the hospital from \$498,393 in May, 1995 to \$240,528 in May, 1996. Management should be commended for taking the needed steps in the collection process and improving the financial position of the hospital.
- The purchasing function at the Hospital and Extended Care Facility has improved significantly over the prior year. Inventory levels have been reduced significantly. Overall costs at the Hospital and Extended Care Facility have been reduced by \$78,699 over the prior year.
- Hospital management has completed its policy and procedure guide. This was a major project and management should be commended. The manual is comprehensive and will be a beneficial tool for orientating new employees as well as providing guidance to existing employees.
- Town management should be commended for its efforts in receiving approval from the state bond commission regarding its request to issue \$1,500,000 Utilities Revenue Bonds, which were essential in providing the necessary funding for the utility system. Also, the 1988 Series Utility Revenue Bonds were refunded which will result in a substantial interest savings over the term of the bonds.

Both the Town and Hospital management worked diligently to implement the recommendations from the prior year and make the necessary improvements. While not all recommendations have been completely implemented, management is making a concerted effort to accomplish these tasks.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

The findings and recommendations from the prior year's audit have been resolved or are in the process of being implemented.

This report is intended for the information of the Board, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Town of Welsh, Louisiana, is a matter of public record.

Mc Elroy, Quirk + Burch

Lake Charles, Louisiana
October 28, 1996

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INDEPENDENT AUDITOR'S COMPLIANCE REPORT BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements of the Town of Welsh, Louisiana, as of and for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Town of Welsh, Louisiana, is the responsibility of the Town of Welsh, Louisiana management. As part of obtaining reasonable assurance about whether the general purpose financial statements and combining and account group financial statements are free of material misstatement, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements and combining and account group financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Town of Welsh, Louisiana, is a matter of public record.

Mc Elroy, Quirk & Burch

Lake Charles, Louisiana
October 28, 1996

TOWN OF WELSH, LOUISIANA

COMBINED STATEMENTS OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 Years Ended May 31, 1996 and 1995
 (Continued)

	<u>Enterprise Funds</u>	
	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) redemption of short-term investments	569,236	(465,191)
Interest income	<u>63,496</u>	<u>57,735</u>
Net cash provided by (used in) investing activities	<u>632,732</u>	<u>(407,456)</u>
Net increase (decrease) in cash and cash equivalents	(303,390)	204,554
Cash and cash equivalents:		
Beginning of year	<u>525,992</u>	<u>321,438</u>
End of year	<u>\$ 222,602</u>	<u>\$ 525,992</u>
Cash and cash equivalents at end of year consist of:		
Restricted cash	\$ 45,719	\$ 55,685
Unrestricted cash	<u>176,883</u>	<u>470,305</u>
Total	<u>\$ 222,602</u>	<u>\$ 525,992</u>

See accompanying notes to financial statements

statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose, combining and account group financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements and account group financial statements taken as a whole.

Ms Eloy, Quirk + Burch

Lake Charles, Louisiana
October 28, 1996

E. Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

Cash and cash equivalents include amounts in demand deposits and certificates of deposit. Certificates of deposit are stated at cost.

Louisiana State Statutes, as stipulated in R.S. 39:1271, authorize the Town to invest in United States bonds, treasury notes, or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investments are stated at cost.

F. Estimated Uncollectibles and Contractual Allowances

Uncollectible amounts due from customers' utility receivables, hospital and extended care receivables are recognized as bad debts and contractual allowances expense through the establishment of an allowance account at the time information becomes available, which would indicate the uncollectibility of the particular receivable.

G. Inventories

Inventories held by the Enterprise Funds are priced at the lower of cost (first-in, first-out) or market.

H. Fixed Assets

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Approximately 45 percent of general fixed assets and 41 percent of public utility fixed assets are recorded at estimated historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements and the combining and individual fund and account group financial statements of the Town of Welsh, Louisiana, for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996. We have also audited the compliance of Town of Welsh, Louisiana, with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 28, 1996.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements and the combining, individual fund and account group financial statements are free of material misstatement and about whether the Town of Welsh, Louisiana complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended May 31, 1996, we considered the internal control structure of the Town in order to determine our auditing procedures for the purpose of expressing our opinions on the general purpose financial statements of the Town and the Town's compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated October 28, 1996.

The management of the Town of Welsh, Louisiana, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Administering controls used in administering the major federal financial assistance programs

General requirements:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Drug free workplace
- Allowable costs/cost principles
- Administrative requirements

Specific requirements:

- Types of services
- Eligibility
- Matching and level of effort
- Reporting
- Cost allocation
- Specific requirements:
 - Needs assessment
 - Records retention

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended May 31, 1996, the Town of Welsh, Louisiana, expended one hundred (100) percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements

governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Town's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope that would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure policies and procedures used in administering federal financial assistance programs would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we considered to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the Town of Welsh, Louisiana, compliance with requirements applicable to its major federal financial assistance programs for the year ended May 31, 1996, and this report does not affect our report thereon dated October 28, 1996.

Reportable conditions:

General:

- Because of the entity's size and the limited number of accounting personnel, it is not feasible to segregate duties to achieve effective internal accounting control. Management of the Town has considered this weakness and determined that it would not be cost effective to employ sufficient personnel to obtain adequate segregation of duties. Management has attempted to mitigate this weakness by its supervision and review procedures.

- It is recommended that all cash drawers be counted and reconciled daily. A reconciliation form should be developed to document this process. Additionally, it is recommended that management spot check cash drawers on a random basis to insure that proper procedures are being followed.
- During our review of deposits, we noted numerous employee checks being cashed through the cashier's drawer. It is generally not a good policy to allow employees to cash personal checks through company cash funds. Our review noted several checks for employees that were being held in the cash drawer. If checks are not deposited timely, the result is an interest free loan to that employee. It is recommended that employees be strictly prohibited from cashing checks through hospital funds.
- During our review of the cashier drawer, it was noted that both the petty cash fund and cashier drawer are maintained in the same cash drawer. It is recommended that the petty cash fund be maintained separately from the cashier drawer. All petty cash reimbursement checks should be made out to petty cash and cashed at the bank. All petty cash reimbursements should be reviewed in detail by the person signing the petty cash reimbursement check. All petty cash vouchers and receipts should be canceled to avoid possible resubmission.
- During our review of NSF check processing, it was noted that NSF checks are held in a cash drawer until collections are made. It is recommended that all NSF checks be charged back to the appropriate receivable account as soon as they are received from the bank. NSF checks should not be handled by personnel who post to accounts receivable accounts. The journal entry to record such charge backs should be done by accounting personnel independent of the receivable function.
- We recommend the continued review of bank reconciliations and bank statements by management on a monthly basis to insure proper oversight regarding the reconciliation process.
- We noted two instances of incorrect coding on third party reimbursement at the nursing home which resulted in no billings issued for extended periods of time. We recommend that additional procedures be implemented to insure that billings are done on a timely basis. Management should take additional steps in reviewing exception reports to determine that all services are billed appropriately.
- During our review of accounts receivable, we noted several overpayments on accounts that had not been set up to be refunded on a timely basis. We recommend that management review credit balances monthly and that any overpayments be investigated and if required refunded on at least a quarterly basis.

Other comments:

- We recommend cross-training of accounting personnel. Each position should have an individual that is assigned the responsibility of the position and an individual that is trained as a back-up to the position in the event of illness or other absences from work of the primary individual. We further recommend that each employee be required to take at least one week's vacation at one time each year.

- All checks prepared for signature should be presented to the authorized signer along with the supporting documentation for the check. No check should be signed until the signer has reviewed the accompanying invoice and signs documentation. We recommend no vendor be paid from a statement. Vendors should be paid from invoices only to assist in eliminating duplicate payment of the same invoice.

- Collections on accounts receivable at the hospital have improved over last year. Our review indicated that the hospital management is taking aggressive steps in its collection procedures in an effort to collect all funds possible. Accounts receivable collection efforts have resulted in a decrease of over \$125,000 in the accounts receivable. This collection effort has also increased cash flow. Management has used the increased cash flow to substantially reduce the accounts payable and accrued liabilities at the hospital from \$498,393 in May, 1995 to \$240,528 in May, 1996. Management should be commended for taking the needed steps in the collection process and improving the financial position of the hospital.

- The purchasing function at the Hospital and Extended Care Facility has improved significantly over the prior year. Inventory levels have been reduced significantly. Overall costs at the Hospital and Extended Care Facility have been reduced by \$78,699 over the prior year.

- Hospital management has completed its policy and procedure guide. This was a major project and management should be commended. The manual is comprehensive and will be a beneficial tool for orientating new employees as well as providing guidance to existing employees.

- Town management should be commended for its efforts in receiving approval from the state bond commission regarding its request to issue \$1,500,000 Utilities Revenue Bonds, which were essential in providing the necessary funding for the utility system. Also, the 1988 Series Utility Revenue Bonds were refunded which will result in a substantial interest savings over the term of the bonds.

Both the Town and Hospital management worked diligently to implement the recommendations from the prior year and make the necessary improvements. While not all recommendations have been completely implemented, management is making a concerted effort to accomplish these tasks.

The above items were discussed with appropriate Town personnel and management. It is management's intention to initiate or consider the above items for implementation during the next fiscal year.

Also, the findings noted and recommendations suggested in our prior audit have been implemented. Those not implemented have been restated as part of these recommendations.

This report is intended for the information of the Board, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Town of Welsh, Louisiana, is a matter of public record.

Mc Elroy, Quirk + Burch

Lake Charles, Louisiana
October 28, 1996

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements and the combining and individual fund and account group financial statements of the Town of Welsh, Louisiana, as of and for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996.

We have applied procedures to test the Town of Welsh's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance for the year ended May 31, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Drug-free Workplace Act
- Allowable costs/cost principles
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Town of Welsh, Louisiana's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of Welsh, Louisiana, had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

This report is intended for the information of the Board, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Town of Welsh, Louisiana, is a matter of public record.

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Lake Charles, Louisiana
October 28, 1996

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Assets in the general fixed assets account group, if presented, are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

I. Restricted Assets

These assets consist of cash and investments restricted for various purposes as detailed in Note 4.

J. Reserves and Designations

The Town records reserves to indicate that a portion of the fund balance or retained earnings is legally segregated for a specific future use. The Town records designations to indicate the adoption of tentative plans that, if carried out, would restrict the use of financial resources. The following is a list of all reserves and designations used by the Town and a description of each as of May 31, 1996:

	<u>Reserved</u>
Enterprise funds:	
Reserved for public utility revenue bond debt service (sinking and reserve fund)	\$ 253,970
Reserved for hospital maintenance	96,368
Reserved for public utility construction in progress, contingencies, capital additions	669,250
Reserved for public utility customer deposits	8,612
Reserved for certificates of indebtedness-sinking fund	<u>147,671</u>
	<u>\$ 1,281,848</u>

K. Revenue Recognition - Property Taxes

Property taxes are levied on June 1, billed on November 1, and payable by December 31.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

The total millage of 17.12 for the year ending May 31, 1996 was composed of the following:

<u>Description</u>	<u>Millage</u>	<u>Collected</u>
General property tax	7.12	\$ 62,930
Hospital maintenance tax	10.00	79,664

L. Compensated Absences

The Town accrues a liability for compensated absences which meet the following criteria:

1. The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria the Town has accrued a liability for vacation pay which has been earned but not taken by Town employees. For governmental funds the liability for compensated absences is in the general fund since it is anticipated that the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with FASB Statement 43.

M. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, complete comparative data (i.e., presentation of prior year totals by fund type in each of the statements) have not been presented since their inclusion would make the statements unduly complex and difficult to read.

N. 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 cash flows 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.

O. Interest Expense

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62-Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants.

Note 2. Cash and Investments

Pursuant to state law the Town may deposit funds with state banks organized under the laws of Louisiana and national banks having principal offices in the state. Investments may include instruments or obligations issued by the United States Government or its agencies, time certificates of deposit of certain banks, or any other federally issued investment.

The Town's bank demand and time deposits at year end were entirely covered by federal depository insurance or by pledge of securities owned by the financial institution in the Town's name. The deposits at May 31, 1996 classified to give an indication of the level of risk assumed by the Town are as follows:

	Cash and Demand <u>Deposits</u>	Certificates of <u>Deposit</u>
May 31, 1996		
Carrying amount	<u>\$ 301,468</u>	<u>\$ 1,648,164</u>
Bank balances:		
1. Insured or collateralized with securities held by the entity or its agent in the entity's name	\$ 152,141	\$ 1,648,164
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name	-	-
3. Uncollateralized, including any securities held for the entity but not in the entity's name	<u>-</u>	<u>-</u>
Total bank balances	<u>\$ 152,141</u>	<u>\$ 1,648,164</u>

Town:

- During our review of the Town's internal control system, we noted that the policy and procedure manual needs to be reviewed and updated. This manual was developed several years ago and addresses many aspects of the Town's operations. It is recommended that management review this manual and update and reflect the Town's current policies and procedures in effect.

Hospital:

- During our review of pharmacy procedures, it was noted that controls over billings needs to be improved. Currently requisitions for prescriptions are prepared for each sale. The requisitions are prenumbered, but are not always used in numerical order. A control log is not being maintained to account for all requisitions issued. It is recommended that prescription requisitions be three part numerical forms. These forms should be used in numerical order and a control log should be maintained to account for each requisition. The requisitions should be distributed as follows: one copy maintained in the pharmacy for reference; copy two and three should be sent to the cashier to be held in a pending file until the prescription is paid for. After the prescription has been paid for, one copy should be marked paid and given to the customer, the final copy should be used as supporting documents for making the bank deposit. Bank deposit should be made daily by accounting office personnel independent of the cashier function. Additionally, it is recommended that pharmacy requisitions be paid for by customers on a cash and carry basis.
- Our review of the dietary collections procedures indicated the need to improve controls over deposits. Dietary collections should be turned in daily to the cashier. A control log should be maintained indicating the names of all persons purchasing meals. The log should contain the date, the customer name and amount paid. Deposits should be made daily by accounting department personnel independent of the cashier function. A copy of the control log should be submitted to the cashier with the daily collections as supporting documentation of the funds collected.
- During our review of the daily deposits, it was noted that receipts are generally prepared for all window deposits. However, it was noted that some receipts did not indicate whether the collections were in cash or by check. It is recommended that all receipts indicate the nature of the collection on the receipt. Deposits for window receipts should be made by accounting personnel independent of the cashier function. Additionally, the components of the deposit, i.e., cash and checks, should be compared to the receipts to insure that cash and checks deposited agree with actual receipts.

In our opinion, the Town of Welsh, Louisiana complied, in all material respects, with the requirements governing loans and loan guarantees that are applicable to each of its major federal financial assistance programs for the year ended May 31, 1996.

This report is intended for the information of the Board, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Town of Welsh, Louisiana, is a matter of public record.

Mc Elroy, Smith + Burch

Lake Charles, Louisiana
October 28, 1996

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INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements and the combining and account group financial statements of the Town of Welsh, Louisiana, for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining and account group financial statements of the Town of Welsh, Louisiana. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose, combining and account group financial

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Mayor and Board of Aldermen
Town of Welsh
Welsh, Louisiana

We have audited the general purpose financial statements of the Town of Welsh, Louisiana, as of and for the year ended May 31, 1996, and have issued our report thereon dated October 28, 1996.

We have also audited Town of Welsh's compliance with the requirements governing federal loans and loan guarantees that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended May 31, 1996. The management of the Town of Welsh is responsible for the Town's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the second paragraph occurred. An audit includes examining, on a test basis, evidence about the Town of Welsh's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to in the second paragraph.