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TOWN OF STERLINGTON
General Purpose Financial Statements
As of and For the Years Ended December 31, 1998 and 1997

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 JUN 30 1999

**TOWN OF STERLINGTON
GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

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Luffey
Huffman
& Monroe

(A Professional Accounting Corporation)
CERTIFIED PUBLIC ACCOUNTANTS

John L. Luffey, MBA, CPA
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Esther Atteberry, CPA
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INDEPENDENT AUDITORS' REPORT

**Board of Aldermen
Town of Sterlington
Sterlington, Louisiana**

We have audited the accompanying general purpose financial statements of the **Town of Sterlington, Louisiana** (the Town), as of December 31, 1998 and for the years ended December 31, 1998 and 1997, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Society of Certified Public Accountants and the Louisiana Legislative Auditor. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town as of December 31, 1998, and the results of its operations and cash flows of its proprietary fund type for the years ended December 31, 1998 and 1997 in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 1999 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as Schedules in the accompanying Table of Contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Town. 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.

Ruffey, Huffman & Moore (APAC)

April 22, 1999

TOWN OF STERLINGTON
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
DECEMBER 31, 1998

	<u>Governmental Fund Type General</u>	<u>Proprietary Fund Type Enterprise</u>	<u>General Fixed Assets Account Group</u>	<u>Totals (Memorandum Only)</u>
ASSETS				
Cash	\$ 339,163	\$ 1,283	\$ -	\$ 340,446
Receivables:				
Accounts Receivable	4,968	1,877	-	6,845
Accrued Interest	619	-	-	619
Taxes	35,930	-	-	35,930
Due From Other Funds	932	-	-	932
Restricted Assets:				
Cash	-	7,075	-	7,075
Utility Plant and Equipment	-	186,858	-	186,858
Accumulated Depreciation	-	(145,739)	-	(145,739)
General Fixed Assets	-	-	811,135	811,135
TOTAL ASSETS	<u>\$ 381,612</u>	<u>\$ 51,354</u>	<u>\$ 811,135</u>	<u>\$ 1,244,101</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	\$ 31,507	\$ 1,083	\$ -	\$ 32,590
Payroll Deductions Payable	4,244	188	-	4,432
Due To Other Funds	-	932	-	932
Bond Payable - Current	-	934	-	934
Bond Payable - Long-Term	-	40,475	-	40,475
Total Liabilities	<u>35,751</u>	<u>43,612</u>	<u>-</u>	<u>79,363</u>
Fund Equity				
Contributed Capital	-	22,235	-	22,235
Investment in General Fixed Assets	-	-	811,135	811,135
Retained Earnings (Deficit):				
Reserved for Debt Service	-	7,075	-	7,075
Unreserved	-	(21,568)	-	(21,568)
Fund Balances:				
Designated for Police Protection	13,241	-	-	13,241
Designated for Drainage	55,719	-	-	55,719
Unreserved - Undesignated	276,901	-	-	276,901
Total Fund Equity	<u>345,861</u>	<u>7,742</u>	<u>811,135</u>	<u>1,164,738</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 381,612</u>	<u>\$ 51,354</u>	<u>\$ 811,135</u>	<u>\$ 1,244,101</u>

The accompanying notes are an integral part of this statement.

TOWN OF STERLINGTON
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998			1997		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues						
Taxes	\$ 135,525	\$ 185,955	\$ 50,430	\$ 136,525	\$ 162,495	\$ 25,970
Licenses and Permits	37,180	36,108	(1,072)	37,170	62,073	24,903
Intergovernmental	-	7,200	7,200	-	30,870	30,870
Fines and Forfeitures	62,000	106,853	44,853	25,000	63,857	38,857
Other Revenue	10,950	25,351	14,401	9,900	14,338	4,438
Total Revenues	<u>245,655</u>	<u>361,467</u>	<u>115,812</u>	<u>208,595</u>	<u>333,633</u>	<u>125,038</u>
Expenditures						
Current:						
General Government	97,640	121,016	(23,376)	92,146	129,543	(37,397)
Public Safety	134,500	135,929	(1,429)	101,777	113,750	(11,973)
Public Works	13,500	31,720	(18,220)	13,500	3,554	9,946
Capital Outlay	-	35,543	(35,543)	-	-	-
Total Expenditures	<u>245,640</u>	<u>324,208</u>	<u>(78,568)</u>	<u>207,423</u>	<u>246,847</u>	<u>(39,424)</u>
Excess of Revenues Over Expenditures	15	37,259	37,244	1,172	86,786	85,614
Fund Balance at Beginning of Year	<u>308,602</u>	<u>308,602</u>	<u>-</u>	<u>221,816</u>	<u>221,816</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 308,617</u>	<u>\$ 345,861</u>	<u>\$ 37,244</u>	<u>\$ 222,988</u>	<u>\$ 308,602</u>	<u>\$ 85,614</u>

The accompanying notes are an integral part of these statements.

**TOWN OF STERLINGTON
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED DEFICIT
PROPRIETARY FUND TYPE - ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
Operating Revenues		
User Fees	\$ 21,987	\$ 21,195
Total Operating Revenues	<u>21,987</u>	<u>21,195</u>
Operating Expenses		
Billing Expense	1,583	1,438
Depreciation	9,480	9,480
Insurance	331	366
Maintenance and System Operations	6,920	7,424
Office Supplies	116	5
Professional Fees	-	805
Salaries and Related Benefits	6,790	6,405
Utilities	3,767	4,658
Total Operating Expenses	<u>28,987</u>	<u>30,581</u>
Operating Loss	(7,000)	(9,386)
Nonoperating Revenues (Expenses)		
Interest Income	161	169
Interest Expense	(2,077)	(2,193)
Total Nonoperating Revenues (Expenses)	<u>(1,916)</u>	<u>(2,024)</u>
Net Loss	(8,916)	(11,410)
Depreciation on Fixed Assets Acquired by Grants	<u>5,555</u>	<u>5,559</u>
Increase in Retained Deficit	(3,361)	(5,851)
Retained Deficit at Beginning of Year	<u>(11,132)</u>	<u>(5,281)</u>
RETAINED DEFICIT AT END OF YEAR	<u>\$ (14,493)</u>	<u>\$ (11,132)</u>

The accompanying notes are an integral part of these statements.

**TOWN OF STERLINGTON
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
Cash Flows From Operating Activities:		
Operating Loss	\$ (7,000)	\$ (9,386)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	9,480	9,480
Changes in Assets and Liabilities:		
Accounts Receivable	(89)	(32)
Accounts Payable	132	137
Payroll Deductions Payable	10	112
Due To Other Funds	-	805
Total Adjustments	<u>9,533</u>	<u>10,502</u>
Net Cash Provided by Operating Activities	2,533	1,116
Cash Flows From Capital Financing Activities:		
Principal Paid on Bonds	(927)	(810)
Interest Paid on Bonds	<u>(2,077)</u>	<u>(2,193)</u>
Net Cash Used by Financing Activities	(3,004)	(3,003)
Cash Flows From Investing Activities:		
Interest Received	<u>161</u>	<u>169</u>
Net Cash Provided by Investing Activities	161	169
Net Decrease in Cash and Cash Equivalents	(310)	(1,718)
Cash and Cash Equivalents at Beginning of Year	<u>8,668</u>	<u>10,386</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,358</u>	<u>\$ 8,668</u>
Current Assets		
Cash	\$ 1,283	\$ 1,754
Restricted Assets		
Cash	<u>7,075</u>	<u>6,914</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 8,358</u>	<u>\$ 8,668</u>

The accompanying notes are an integral part of these statements.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity/Basis Of Presentation

The accompanying financial statements include all funds and account groups of the Town of Sterlington, Louisiana (the Town). The accompanying general purpose financial statements of the Town have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Town consists of an executive branch of government headed by a mayor and a legislative branch of government consisting of five aldermen. The Town's major operations include police and fire protection, street and drainage maintenance, garbage and trash collection, and administrative services.

As the governing authority for the municipality, the Town is the reporting entity for the municipality. The financial reporting entity consists of (a) the primary government (the Town), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 14 established criteria for determining which component units should be considered part of the Town for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is accountability. These criteria include:

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

Based on the foregoing criteria, the financial statements of the Bartholomew Sewerage District No. 1 (a proprietary fund type - enterprise fund - the District) have been included in this report using a blended presentation because the District was created by the Town and the District's Board of Commissioners are the five aldermen.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

The following is a summary of certain significant accounting policies and practices:

A. 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 of this report into the categories and account group as follows:

GOVERNMENTAL FUND

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

PROPRIETARY FUND

Enterprise Fund - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise -- 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ACCOUNT GROUP

General Fixed Assets Account Group - The accounting and reporting treatment applied to the fixed assets 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". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

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. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings; including roads, bridges, curbs, gutters, streets and sidewalks, are not capitalized. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost where actual costs are not available.

B. Basis of Accounting

The modified accrual basis of accounting is used by all governmental funds. The governmental fund uses the following practices in recording revenues and expenditures:

Revenues

Taxpayer-assessed taxes are considered "measurable" when assessed and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include accumulated unpaid vacation, sick pay, and other employee benefits which are immaterial and therefore not accrued.

All proprietary funds are accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized at the time liabilities are incurred.

C. Budgets and Budgetary Accounting

The budget for the General Fund is proposed by the Clerk to the Mayor and Board of Aldermen for formal adoption. Budgets are prepared on a basis consistent with GAAP. Budgetary amendments involving the transfer of funds from one department, program or function to another, or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Board of Aldermen. At year end, all appropriations lapse.

TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

D. Interfund Assets and Liabilities

Amounts shown as "advances" to other funds are not expected to be available or spendable during the next accounting cycle. However, amounts designated as "due from other funds" are considered "available spendable resources".

E. Cash and Cash Equivalents

Statutes require that the Town invest surplus cash balances in obligations of the United States Treasury, time certificates of deposit, and any other federally-insured investments. For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Bad Debts

Uncollectible amounts for ad valorem and sales taxes are generally not significant. As a result, the direct write-off method for recognizing bad debts is used.

G. Fixed Assets - Proprietary Fund

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful life using the straight-line method over lives of 10 - 20 years.

H. Total Columns on Combined Statements

The total column on the Combined Balance Sheet is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does 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.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual costs could differ from those estimates.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

J. Nature and Purpose of Designations of Fund Equity

Some portion of fund balance and/or retained earnings are reserved to indicate that a portion of fund equity is legally restricted to a specific future use and is not available for appropriation or expenditure. The Town, through council ordinances, has designated the following percents of fund balance for drainage, police and fire protection.

Drainage	– 15% of sales tax revenue
Police Protection	– 35% of sales tax revenue
Fire Protection	– 15% of sales tax revenue

NOTE 2 - AD VALOREM TAXES

The Town considers ad valorem taxes receivable at December 31 and recognizes income in the year of assessment.

For the year ended December 31, 1998, taxes of 9.34 mills were levied on property with assessed valuations totaling \$2,713,837 and were not dedicated to any particular purpose.

Total taxes originally levied were \$25,347, the majority of which was assessed on residential and commercial property totaling \$16,614 and \$4,826, respectively.

Property Tax Calendar

Assessment Date	January 1
Levy Date	November 15
Total Taxes are Due	December 31

Assessed values are established by the Ouachita Parish Tax Assessor each year on a uniform basis at the following ratios to fair market value.

10% Land	15% Machinery
10% Residential Improvements	15% Commercial Improvements
15% Industrial Improvements (Excluding Land)	25% Public Service Properties

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

NOTE 3 - FIXED ASSETS

A summary of the changes in general fixed assets is as follows:

	<u>Balance 12/31/96</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/97</u>
Land	\$ 24,500	\$ 0	\$ 0	\$ 24,500
Buildings	49,762	1,525	0	51,287
Vehicles and Equipment	101,231	24,774	0	126,005
Fire Protection System	<u>581,981</u>	<u>0</u>	<u>0</u>	<u>581,981</u>
TOTAL	\$ <u>757,474</u>	\$ <u>26,299</u>	\$ <u>0</u>	\$ <u>783,773</u>

	<u>Balance 12/31/97</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/98</u>
Land	\$ 24,500	\$ 0	\$ 0	\$ 24,500
Buildings	51,287	0	0	51,287
Vehicles and Equipment	126,005	35,543	(8,181)	153,367
Fire Protection System	<u>581,981</u>	<u>0</u>	<u>0</u>	<u>581,981</u>
TOTAL	\$ <u>783,773</u>	\$ <u>35,543</u>	\$ <u>(8,181)</u>	\$ <u>811,135</u>

Depreciation on assets acquired with Federal grants in the proprietary fund type is charged to the contributed capital account. The amount of such depreciation for 1998 and 1997 was \$5,555 and \$5,559, respectively, and is reflected as an adjustment to net loss in the proprietary fund operating statement.

NOTE 4 - LONG-TERM DEBT

Bonds payable at December 31, 1998, consist of one revenue bond payable to the U.S. Department of Agriculture - Farmers Home Administration (FmHA). The bond, dated December 21, 1982, was in the amount of \$51,100 and is payable over forty years with interest at the rate of 5% per annum. The bond is to be retired from revenues derived from user fees of the District.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

The annual requirements to amortize the bond outstanding as of December 31, 1998, including interest payments of \$30,687, are as follows:

Year Ending December 31,	Total Payment
1999	\$ 3,004
2000	3,004
2001	3,004
2002	3,004
2003	3,004
2004-2008	15,020
2009-2013	15,020
2014-2018	15,020
2019-2022	12,016
TOTAL	\$ <u>72,096</u>

The loan agreement between the District and FmHA provides for the establishment of the following bank accounts:

1. Revenue Bond Reserve Fund - to provide for the accumulation of monies for the purpose of paying principal and interest on notes which would otherwise be in default. The agreement provides that \$13 per month shall be deposited to this account until the balance equals the highest principal payment. For the year ended December 31, 1998 and 1997, deposits of \$59 and \$62 were made to this reserve fund, all of which relates to interest earned on the account.

2. Depreciation Reserve Fund - to provide for repairs and improvements to the sewer system, with approval of the lender. The agreement provides that \$13 per month shall be deposited to this account until the debt is fully retired. For the year ended December 31, 1998 and 1997, deposits of \$59 and \$62 respectively were made to this depreciation reserve fund, all of which relates to interest earned on the account.

NOTE 5 - PENSION AND RETIREMENT PLAN

STATE SPONSORED PENSION PLAN

The Town of Sterlington had two employees covered under the Municipal Police Employees Retirement System of Louisiana (MPERS) during 1998 and 1997.

The policemen are eligible to retire at age 50 with 20 years of credited service or at age 55 with 12 years of credited service and membership in the System for one year. Benefits are payable monthly for life at a rate of 3.33 per cent of the member's final-

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

average compensation multiplied by his years of credited service. The MPERS also provides death and disability benefits. Benefits are established or amended by state statute.

The MPERS issues an annual publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (504) 929-7411.

The covered employees are required to contribute 7.50 per cent of their annual covered salary to the plan and the Town is required to contribute at an actuarially determined rate. The current rate is 9.00 per cent of annual covered payroll. The contribution requirements of plan members and the Town are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation are subject to change each year based on the results of the valuation for the prior fiscal year. The Town's contributions to the MPERS for the years ending December 31, 1998, 1997, and 1996 were \$3,746 \$2,849, and \$1,949 respectively, equal to the required contributions for each year.

NOTE 6 - ENTERPRISE FUND DEFICIT

The deficit in the Enterprise Fund retained earnings is created mainly by depreciation. The deficit is expected to be removed by revenues in subsequent years.

NOTE 7 - CONDUIT DEBT OBLIGATIONS

In June 1979, the Town of Sterlington and International Minerals and Chemicals Corporation issued a \$10,200,000 bond issue maturing June 1, 2004, and carrying an interest rate of 6.75%. The Bond issue is a Louisiana Pollution Control Revenue Bond issue. International Minerals and Chemicals Corporation makes all payments related to this bond issue, and the Town does not have any liability in connection with this issue. The balance due as of December 31, 1998 and 1997 was \$10,200,000.

The Town of Sterlington and International Minerals and Chemicals Corporation issued two bond issues in June, 1987: a \$3,650,000 Louisiana Pollution Control Revenue Bond issue maturing in June 1, 2008, and carrying an interest rate of 6.75%; and, a \$1,000,000 Louisiana Industrial Revenue Bond issue maturing June 1, 2008, and carrying an interest rate of 6.75%. International Minerals and Chemicals Corporation makes all payments relating to these bond issues, and the Town does not have any liability in connection with these issues. The balances due as of December 31, 1998

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

and 1997 were \$3,650,000 and \$3,470,000, and \$1,000,000 and \$950,000, respectively.

The above described bond issue includes a lease purchase agreement whereby the bonds are payable solely out of the revenue and other amounts derived from the lease, sale or other disposition of the projects.

NOTE 8 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Town has various checking and deposit accounts at two federally insured financial institutions. At December 31, 1998, the bank balances in those institutions totaled \$347,298. All deposits in excess of the Federal Deposit Insurance of \$100,000, are secured by a pledged security totaling \$200,000 that is pledged by the fiscal agent bank and is held by a custodial bank (GASB Category 1).

NOTE 9 - GRANT

The Police Department of the Town of Sterlington was awarded a reimbursement grant, totaling \$46,888, from the United States Department of Justice, Office of Community Oriented Policing Services (COPS). The grant period is from March 1, 1995, to February 28, 1998. Grant funds totaling \$20,984 have been received as of December 31, 1998. During 1998 and 1997, no funds were expended or reimbursed, under the terms of the grant.

NOTE 10 - LITIGATION

At December 31, 1998, the Town is involved in a lawsuit. In the opinion of the legal counsel for the Town, resolution of the lawsuit will not materially affect the financial position of the Town.

NOTE 11 - ON-BEHALF PAYMENTS

Certain Town employees in the Police Department receive supplemental pay from the state of Louisiana. In accordance with GASB Statement No. 24 "*Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*", the Town has recorded revenues and expenditures for these payment in the General Fund in the amount of \$7,200.

**TOWN OF STERLINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

NOTE 12 – RISK FINANCING ACTIVITIES

The Town is a participating member in the Louisiana Risk Management Agency's Group Self-Insurance Fund for Municipal Liability Risk Sharing and Group Self-Insurance Fund for Workmen's compensation and Employer Liability (the Agency). The Agency functions as a Public Entity Risk Pool formed to pool the risk of public liability exposure to its members. The Town insures its law enforcement officers' comprehensive liability and errors and omissions risk through its participation in the Agency pools. The coverage provided by the pools is subject to \$1,000 deductibles for certain coverages and provides coverages up to \$500,000 for each type of insured risk. Premiums for coverage are retroactively rated based on experience and premiums are calculated based on the ultimate cost of the experience to date of the pool participants.

NOTE 13 – CONTINGENCIES

The worldwide challenge facing organizations, commonly referred to as the Year 2000 (Y2K) issue, is the result of problems that may be encountered with date-related transactions on systems that have historically recognized years using two digits vs. four digits, e.g. 98 versus 1998. These systems will potentially recognize the "00" as the year 1900 instead of 2000. On the surface, the Y2K problem sounds simple enough; however, the implications of this problem are far reaching and could impact a full range of business services and activities.

The Town of Sterlington has conducted a study of its own systems and operations. Based on this study, the Town recognizes and plans to initiate a project to take all necessary and reasonable steps to get the mission critical systems and operations Y2K compliant in a timely manner. The project will include confirming the Y2K preparedness of significant third parties.

The timetable for the planned completion of the internal Y2K modification is management's estimate. The estimate was based on numerous assumptions as to future events. There can be no guarantee that the estimate will prove accurate, and actual results could differ from those estimated if these assumptions prove inaccurate. Additionally, there can be no absolute guarantee that significant third parties will successfully and timely convert their systems.

SUPPLEMENTARY INFORMATION

**TOWN OF STERLINGTON
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

SCHEDULE OF COMPENSATION PAID BOARD OF ALDERMEN

The schedule of compensation paid to the board of aldermen is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of Louisiana Legislature. Compensation of the board of aldermen is included in the general government expenditures of the General Fund. The board of aldermen receive a per diem of \$50 per month for each regular monthly meeting. In addition, they receive a per diem of \$12.50 per month for each month they attend a special meeting.

<u>Name</u>	<u>Number of Meetings in 1998</u>		<u>1998 Amount</u>
	<u>Regular</u>	<u>Special</u>	
Linda J. Adcox	12	4	\$ 650
Michael Scott Bardin	12	5	663
Clifford L. Bullock	12	4	650
Catherine F. Estis	12	3	637
Michael D. Smith	12	5	663
TOTAL			\$ 3,263

<u>Name</u>	<u>Number of Meetings in 1997</u>		<u>1997 Amount</u>
	<u>Regular</u>	<u>Special</u>	
Linda J. Adcox	12	3	\$ 638
Michael Scott Bardin	12	4	650
Clifford L. Bullock	12	1	612
Catherine F. Estis	12	4	650
Michael D. Smith	12	4	650
TOTAL			\$ 3,200

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

**Board of Aldermen
Town of Sterlington
Sterlington, Louisiana**

We have audited the general purpose financial statements of the **Town of Sterlington, Louisiana** (the Town), as of December 31, 1998 and 1997 and for the years then ended, and have issued our report thereon dated April 22, 1999. We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.

Compliance

As part of obtaining reasonable assurance about whether the Town's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did note immaterial instances of noncompliance that we have reported to management of the Town in a separate letter dated April 22, 1999.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we

**Board of Aldermen
Town of Sterlington
Sterlington, Louisiana**

consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Finding 98-01 - Unfavorable Budget-to-Actual Variances

Finding:

State statute (LA Rev. 39:1310) calls for the amendment of originally-adopted budgets in the event that revenues and other sources fall below budgeted amounts by more than 5% or if expenditures and other uses exceed budget amounts by more than 5%. In our comparison of budget to actual expenditures in the General Fund, we noted that actual expenditures and other uses exceeded budgeted amounts by approximately 32% and 20% for the years ended December 31, 1998 and 1997, respectively. Budget comparisons are presented to the council each month. However, since previous years entries had not been posted to the general ledger, the budget comparisons were not completely accurate. The budget for 1997 was amended in January 1997 for a \$2,500 addition. The 1998 budget was not amended from its originally-adopted budget.

Recommendation:

We recommend the administration continue to monitor the budget throughout the year and advise the town council in writing when actual expenditures and other uses plus projected expenditures and other uses for the remainder of the year are exceeding the total budgeted expenditures and other uses by five percent or more. When this occurs the administration should present, for adoption, an amended budget to the town council in the same form and under the same procedures as the original budget was presented.

Management's Corrective Action Plan:

The Town Clerk presented budget comparisons to the town council each month at the regular council meetings. In November, 1998 a revised budget was presented to the town council and it was discussed in detail but it was never voted on by the council and therefore never passed. The administration will continue to present budget reports to the council for management information and control and budget amendments will be presented and adopted as called for by law.

**Board of Aldermen
Town of Sterlington
Sterlington, Louisiana**

Finding 98-02 - Adjusting Entries From Prior Years Not Recorded

Finding:

The Town's audit of its financial statements for 1996 required certain audit adjustments. Because the Town's General Fund has six different general ledgers, two ledgers for the General Fund and four ledgers for the Police Fund, and some accounts have not been assigned account numbers, some adjusting journal entries did not get recorded and some entries were recorded to the wrong account.

Recommendation:

We recommend the Town record all required audit adjustments immediately after the audit is completed and reconcile the various fund balances to the year end financial statements.

Management's Corrective Action Plan:

The Town Clerk will make all audit adjustments immediately after the audit is completed. If the Town Clerk does not understand the adjustment, she will immediately communicate with the auditor and clarify the situation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Town in a separate letter dated April 22, 1999.

This report is intended solely for the information and use of the Town's Board of Aldermen, management and others within the organization, its oversight agency, other entities granting funds to the Town and the Legislative Auditor for the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ruffly, Huffman & Mize (AAAC)

April 22, 1999

**TOWN OF STERLINGTON
STERLINGTON, LOUISIANA**

SUMMARY OF STATUS OF PRIOR YEAR FINDINGS

The following is a summary of the status of findings included in our reports on internal control, compliance with laws and regulations and management letter dated May 22, 1997, issued in connection with our examination of the financial statements of the Town of Sterlington, Louisiana as of and for the year ended December 31, 1996.

There were no findings in our reports on internal control and compliance with laws and regulations.

MANAGEMENT LETTER COMMENT

Need to Collect All Ad Valorem Taxes

Finding:

We noted that the Town was not collecting all ad valorem taxes of an assessment year. Unpaid assessments still totaled \$358 from the 1994 assessment year and \$390 from the 1995 assessment year.

Recommendation:

We recommended that the Town should take the necessary steps to ensure that all ad valorem taxes of an assessment year are collected.

Response:

The Town of Sterlington has made very good progress in collecting all ad valorem taxes that are assessed. Only \$56 remains from the 1994 year; none from the 1995 year; none from 1996 and \$214 from the 1997 year.



John L. Luffey, MBA, CPA
Francis I. Huffman, CPA
L. Fred Monroe, CPA
Esther Alleberry, CPA
Carolyn A. Clarke, CPA

**To the Board of Aldermen
Town of Sterlington
Sterlington, Louisiana**

In planning and performing our audit of the general-purpose financial statements of the **Town of Sterlington** (the Town) for the years ended December 31, 1998 and 1997, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls. This letter will summarize our comments and suggestions regarding those matters. This letter does not affect our report dated April 22, 1999 on the financial statements of the Town.

Pay Raises Retroactively Applied

Finding:

The Town granted pay raises to certain employees on two separate occasions that were applied retroactively. State law provides that pay raises for public employees cannot be retroactive.

Recommendation:

For the Town to be in compliance with laws and statutes of the state of Louisiana, we recommend the Town not grant retroactive pay raises.

Management's Corrective Action Plan:

The Town Council gave these two pay raises on the employees anniversary dates. However, the town council meeting was not until later that month and therefore caused the retroactive pay raise. The Council and administration now understand that this is not allowed by law and therefore the Mayor will ensure that retroactive pay raises will not occur in the future.

Deposit Requirements into Restricted Cash Accounts for Debt Retirement

Finding:

The Loan Agreement between Bartholomew Sewerage District and FmHA provides for the establishment of two checking accounts into which deposits of \$13 are to be made monthly

into each; the Revenue Bond Reserve Fund and the Depreciation Reserve Fund. These accounts are to provide for the accumulation of monies for the purpose of paying principal and interest on notes which would otherwise be in default and to provide for repairs and improvements to the sewerage system, respectively. The monthly deposits are to continue into the Revenue Bond Reserve Fund until the balance in the account reaches the highest annual principal payment, which is \$2,759. This fund was short \$156 at December 31, 1998. Deposits are to continue into the Depreciation Reserve Fund until all bonds have been retired. We noted that the only deposits made to these accounts were for the interest earnings during 1998 and 1997. The balances in the accounts and the amount of the transfer activity does not appear to be in compliance with the terms of the underlying loan agreement. The balance in the Depreciation Reserve Fund has a balance large enough to equal the amount of the monthly payments required per the loan agreement. However, this is due in part to the accumulation of interest earnings over the years.

Recommendation:

For the Town to be in compliance with the loan agreement, we recommend that a deposit be made to the Revenue Bond Reserve Fund in the amount of \$156 in order to bring the balance to the required amount of \$2,759, which is the highest principal payment of any year. We recommend the Town Clerk immediately begin making monthly deposits of \$13, retroactive to January 1, 1999, to the Depreciation Reserve Fund and continue making these monthly deposits until all bonds are retired.

Management's Corrective Action Plan:

The Town Clerk will schedule out any deposits made during 1999 to the above accounts and will make the required deposits into the two accounts to bring them into compliance immediately. Also, the Town Clerk will ensure that the required monthly deposits to the Depreciation Reserve Fund will be made.

Processing of Vendor Invoices

Finding:

Vendor invoices which have been paid have not been marked "Paid" or otherwise defaced to prevent their unauthorized duplication and/or reuse.

Recommendation:

As vendor invoices are processed for payment, we recommend that they be stamped "Paid" and then marked with the date, check number and account number charged when the invoice was entered into the accounts payable system.

Management's Corrective Action Plan:

The Town Clerk immediately began writing "paid, check number, date and account number" on the invoices and attaching a copy of the check after the auditor's recommendation. The Town Clerk is having a rubber stamp made to assist with this process and it will be completed by June 15, 1999.

Accounting System

Finding:

We noted certain matters concerning the Town's method of recording, processing, and summarizing transactions. There are several accounts in the various general ledgers, primarily those related to the payroll function, that do not have account numbers. The Town's General Fund has six different general ledgers, two ledgers for the General Fund and four ledgers for the Police Fund. Furthermore, some accounts have not been assigned account numbers making it difficult to match account numbers when preparing trial balances. As a result, the Town Clerk had problems recording prior year adjusting journal entries. Some of these entries were recorded to the wrong accounts and some entries did not get posted at all. Therefore, the fund balances carried forward from previous years in the six funds of the "general fund" did not agree with the previous years fund balances.

Recommendation:

We recommend the chart of accounts be reviewed and the necessary changes made to consolidate the two ledgers for the General Fund and four ledgers for the Police Fund into one general ledger for these funds to be called the "General Fund".

Management's Corrective Action Plan:

Over the years the number of funds within the general fund have grown and the Town agrees that it is time to consolidate all of these into one. This will be a major undertaking and the Town Clerk will be responsible for its completion. She will obtain other help as necessary to complete the consolidation and will have it complete by January 1, 2000.

This report is intended solely for the information and use of management of the Town and its Board of Aldermen, its oversight agency, other entities granting funds to the Town and the Legislative Auditor for the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ruffey, Huffman & Moore (APAC)

April 22, 1999