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TOWN OF SORRENTO, LOUISIANA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 1998

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

Release Date JAN 27 1999

CONRAD P. BOURQUE
Certified Public Accountant

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Balance Sheet – All Fund Types and Account Groups	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	4
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type – Enterprise Fund	5
Statement of Cash Flows – Proprietary Fund Type – Enterprise Fund	6
Notes to Financial Statements.....	7
SUPPLEMENTAL SCHEDULE	
Schedule of Per Diem Paid	17
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL AUDITING STANDARDS</i>.....	
Schedule of Findings and Questioned Costs	20
Summary Schedule of Prior Audit Finding	21
Corrective Action Plan	22

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Ms. Brenda Melancon, Mayor
and the Members of the Sorrento Council
Town of Sorrento, Louisiana

I have audited the accompanying general purpose financial statements of the Town of Sorrento, Louisiana, as of and for the year then ended, June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Sorrento, Louisiana, management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

Except, as discussed in the following paragraph, I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Government Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue. The Town of Sorrento has included such disclosures in Note 10. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related mediations efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Town of Sorrento's disclosure with respect to the year 2000 issue made in Note 10. Further, I do not provide assurance that the Town of Sorrento is or will be year 2000 ready, that the Town of Sorrento's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Town of Sorrento does business will be year 2000 ready.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Sorrento, Louisiana, as of June 30, 1998, and the results of its operations and cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, I have also issued a report dated December 23, 1998, on my consideration of the Town of Sorrento's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, and contracts.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of Sorrento, Louisiana, taken as a whole. The accompanying financial information listed as a supplemental schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

December 23, 1998

Conrad P. Bourque

TOWN OF SORRENTO, LOUISIANA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

30-Jun-98

	GOVERNMENTAL FUND TYPE	PROPRIETARY FUND TYPE	ACCOUNT GROUP GENERAL FIXED ASSETS	TOTALS (MEMO. ONLY) 6/30/1998
	GENERAL	ENTERPRISE		
ASSETS				
Cash	\$ 249,617	\$ 108,373	-	\$ 357,990
Investments, at cost	158,586	-	-	158,586
Receivables:				
Taxes & Utilities	36,942	12,561	-	49,503
Due from other government agencies	48,416	-	-	48,416
Prepaid expenses	-	1,397	-	1,397
Restricted assets:				
Cash	103,222	10,875	-	114,097
General fixed assets	-	-	582,999	582,999
Fixed assets (net of accumulated depreciation)	-	800,085	-	800,085
TOTAL ASSETS	\$ 596,783	\$ 933,291	\$ 582,999	\$2,113,073
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Payroll taxes payable	\$ 2,670	\$ 270	\$ -	\$ 2,940
Accounts payable	8,988	8,949	-	17,937
Accrued items	1,629	212	-	1,841
Customer deposits	-	10,875	-	10,875
Total Liabilities	13,287	20,306	-	33,593
FUND EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	582,999	582,999
Contributed Capital (net of accumulated depreciation)	-	778,013	-	\$ 778,013
Retained earnings:				
Unreserved	-	134,972	-	134,972
Fund balances:				
Reserved for restricted assets	103,222	-	-	103,222
Unreserved	480,274	-	-	480,274
Total Fund Equity	583,496	912,985	582,999	2,079,480
TOTAL LIABILITIES AND FUND EQUITY	\$ 596,783	\$ 933,291	\$ 582,999	\$2,113,073

The accompanying notes are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 1998

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 1998)

	1998		VARIANCE-	
	<u>BUDGET</u>	<u>ACTUAL</u>	FAVORABLE (UNFAVORABLE)	<u>ACTUAL 1997</u>
REVENUES:				
Taxes	\$ 293,600	\$ 311,423	\$ 17,823	\$ 281,510
Video Poker	175,000	214,693	39,693	201,668
Licenses	33,000	40,225	7,225	30,179
Fines and forfeits	185,000	213,331	28,331	123,971
Miscellaneous	<u>43,520</u>	<u>54,352</u>	<u>10,832</u>	<u>19,015</u>
Total revenues	730,120	834,024	103,904	656,343
EXPENDITURES:				
Current:				
General government	229,120	207,758	21,362	234,092
Public safety	280,000	280,895	(895)	199,373
Highways and streets	155,000	123,125	31,875	167,118
Capital outlay	<u>66,000</u>	<u>68,118</u>	<u>(2,118)</u>	<u>3,175</u>
Total expenditures	730,120	679,896	50,224	603,758
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	-	154,128	154,128	52,585
NON-OPERATING REVENUE:				
Interest	<u>-</u>	<u>11,033</u>	<u>11,033</u>	<u>-</u>
EXCESS BEFORE OTHER FINANCING (USES)	-	165,161	165,161	52,585
OTHER FINANCING (USES):				
Operating transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
EXCESS OF REVENUES AND OTHER (USES) OVER EXPENDITURES	-	165,161	165,161	22,585
FUND BALANCES, beginning of year	<u>-</u>	<u>315,113</u>	<u>-</u>	<u>363,145</u>
FUND BALANCES, end of year	\$ -	\$ 480,274	\$ 165,161	\$ 385,730

The accompanying notes are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS -
PROPRIETARY FUND TYPE - ENTERPRISE FUND
YEAR ENDED JUNE 30, 1998

(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 1997)

	<u>30-Jun-98</u>	<u>30-Jun-97</u>
OPERATING INCOME:		
Charges for services:		
Gas sales	\$ 113,840	\$ 63,517
Garbage	48,041	38,906
Sewer	33,510	13,004
Miscellaneous	-	-
Total operating income	<u>195,391</u>	<u>115,427</u>
OPERATING EXPENSES:		
Gas department expenses	91,136	88,661
Garbage department expenses	52,939	46,107
Sewer department expenses	29,668	10,219
Depreciation	<u>23,461</u>	<u>17,308</u>
Total operating expenses	<u>197,204</u>	<u>162,295</u>
OPERATING (LOSS)	(1,813)	(46,868)
NON-OPERATING INCOME:		
Interest	<u>2,773</u>	<u>2,957</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	960	(43,911)
OTHER FINANCING SOURCES:		
Operating transfers in	-	30,000
LESS DEPRECIATION TRANSFERRED TO CONTRIBUTED CAPITAL	<u>14,896</u>	<u>14,896</u>
NET INCOME	15,856	985
RETAINED EARNINGS, beginning of year	<u>119,116</u>	<u>118,131</u>
RETAINED EARNINGS, end of year	\$ 134,972	\$ 119,116

The accompanying notes are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - ENTERPRISE FUND
YEAR ENDED JUNE 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating (loss)	\$	(1,813)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expenses		23,461
Decrease in accounts receivable		12,977
Increase in prepaid expenses		(176)
Decrease in payroll taxes payable		(270)
Increase in accounts payable		4,730
Decrease in accrued items		(77)
Increase in customer deposits		<u>1,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	39,832
CASH FLOWS FROM FINANCIAL ACTIVITIES:		
Proceeds from contributed capital		<u>118,850</u>
NET CASH SOURCE FOR FINANCING ACTIVITIES		118,850
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment		(131,067)
Interest earnings		<u>2,773</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		<u>(128,294)</u>
NET INCREASE IN CASH		30,388
CASH, beginning of year		<u>88,860</u>
CASH, end of year	\$	119,248

The accompanying notes are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Sorrento, Louisiana, was incorporated September 11, 1956, under the provision of the Lawrason Act. The Town operates under a Mayor – Council form of government.

The accounting and reporting practices of the Town of Sorrento, Louisiana, conform to generally accepted accounting principles as applicable to governmental units on a consistent basis between periods. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Governmental Audit Guide, and to the industry audit guide, Audits of State and Local Governmental Units, published by the American Institute of Certified Public Accountants.

- A. **Financial Reporting Entity** – This report includes all funds and account groups which are controlled by or dependent on the Town’s executive and legislative branches (the Mayor and Council). Control by or dependence on the Town was determined on the basis of budget adoption, taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

Based on the foregoing criteria, a certain organization (Fire Department) is not part of the Town and is thus excluded from the accompanying financial statements. No control is exercised by the Town over its operations.

The following is a summary of certain significant accounting policies:

- B. **Fund Accounting** – The accounts of the Town of Sorrento, Louisiana, 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 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 two generic fund types as follows:

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Type:

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.

Proprietary Fund Type:

Enterprise Fund – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing 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 the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- C. Fixed Assets and Long-Term Liabilities** – The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

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

Fixed assets used in governmental funds type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and are recorded as expenditures in the governmental fund types when purchased. The Town has elected to capitalize public domain (“infrastructure”) fixed assets consisting of certain improvements other than buildings, including roads, bridges, sidewalks, and drainage improvements. No depreciation has been provided on general fixed assets.

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

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>YEARS</u>
Lines, meters, & sewer system	50
Equipment	6-10
Vehicles	6

All fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets of \$121,566 (Cleve Reber Site-\$118,850) are stated at their estimated fair value on the date received.

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

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts, and sales taxes are considered “measurable” when in the hands of collecting governments 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.

Property taxes, sales taxes, and interest revenue are treated as susceptible to accrual.

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

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

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

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- E. Budgets and Budgetary Accounting** – The Town follows these procedures in establishing the budgetary data reflected in these financial statements:
- 1). The Town Mayor and Clerk prepare a proposed budget message and budget and submits same to the Town Council prior to the beginning of each fiscal year.
 - 2). A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
 - 3). A public hearing is held on the proposed budget at least two weeks after publication of the call for the hearing.
 - 4). After the holding of the public hearing and completion of all action necessary to finalized and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
 - 5). Budgetary amendments involving the transfer of funds from one department, program, or function to another, or involving increases in expenditures resulting from revenues exceeding amount estimated require the approval of the Town Council.
 - 6). All budgetary appropriations lapse at the end of each fiscal year.
 - 7). Budgets for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted accounts are as originally adopted, or as amended from time to time by the Town Council.
- F. Bad Debts** – Uncollectible amounts due for ad valorem taxes and customers' utility receivables are expensed as bad debts when the debt becomes uncollectible, which is not materially different from generally accepted accounting principles. As of June 30, 1998, \$3,337 was considered uncollectible.
- G. Prepaid Expense** – Payments made, which will benefit periods beyond June 30, 1998, are recorded as prepaid expense.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences – The Town has the following policy relating to vacation and sick leave:

Each full time employee is entitled to 5 days vacation and 5 days sick leave for each year worked. Vacation benefits increased after 5 years worked to 10 days, after 10 years worked to 15 days, after 15 years worked to 20 days. These benefits are non-cumulative and must be taken when due.

I. Sales Taxes – The Town of Sorrento Council passed an ordinance, effective July 1, 1981, levying a one cent sales tax for the purposes of general operating expenses (70%), recreation (10%), fire protection (10%), and senior citizens programs (10%). The Town Council also passed an ordinance, effective October 26, 1986, levying a one cent sales tax for the purpose of general operating expenditures.

J. Comparative Data – Comparative total data for the prior year has been presented in the accompanying financial statements (except the combined balance sheet and statement of cash flows) in order to provide an understanding of changes in the Town's operations.

K. Total Columns on Combined Statements – Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

L. Statement of Cash Flows – The Town has adopted the use of the statement of cash flows in place the statement of changes of financial position. For purposes of the statement of cash flows, the Utility Enterprise Fund considers all highly liquid investments, (including restricted assets), with a maturity of three months or less when purchased to be cash equivalents.

M. Investments – Investments are stated at market value.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 2 - DEPOSITS AND INVESTMENTS

The carrying amount of the Town's deposits (listed as cash on the financial statement), including certificates of deposit, with financial institutions as of June 30, 1998, was \$472,087 and the bank balance was \$498,509. The bank balance is categorized as follows:

Amount insured by the FDIC (Category 1)	\$200,000
Amounts collateralized with securities held by the trust department of the fiscal agent bank (Category 2)	298,509
Amounts uninsured and unsecured	<u> --</u> \$498,509

Statutes authorize the Town to invest in United States bonds, treasury notes or certificates, time certificates of deposits of Louisiana state banks and national banks having the principle office in the State of Louisiana or any other federally insured investments.

The government's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name, or (3) uninsured and unregistered for which securities are held by the broker or dealer, or by its trust department or agent but not in the government's name. As of June 30, 1998, investments consisted of the following:

	<u>Carrying Amount</u>	<u>Market Value</u>
LAMP Funds	\$158,586	\$158,586

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 3 – AD VALOREM TAXES

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Town in September or October, and are actually billed to the taxpayers in November. Billed Taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The Town bills and collects its own property taxes using the assessed values determined by the tax assessor of Ascension Parish.

For the year ended June 30, 1998, taxes of 6.62 mills were levied on property with assessed valuations totaling \$2,840,730, and were dedicated to general government.

Total taxes levied were \$19,766. No taxes were receivable at June 30, 1998.

NOTE 4 – RESTRICTED ASSETS

Restricted assets at June 30, 1998, were applicable to the following:

	<u>General Fund</u>
Fire Protection	\$ 7,785
Senior citizens programs	12,003
Recreation	<u>83,434</u>
Total	\$ 103,222
	<u>Utility Fund</u>
Gas Deposits	\$ 10,875

NOTE 5 – CONCENTRATION OF CREDIT RISK – PROPRIETARY FUND

Accounts receivable from utility customers were comprised of the following sources: residential –99% and commercial –1%. Most customers have made deposits to partially secure their outstanding balance.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 6 – FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance			Balance
	<u>6-30-97</u>	<u>Additions</u>	<u>Retirements</u>	<u>6-30-98</u>
Buildings	\$281,099	\$ --	\$(102,411)	\$178,688
Land	29,450	--	--	29,450
Other improvements	2,769	106,044	--	108,813
Equipment	<u>367,057</u>	<u>67,149</u>	<u>(168,158)</u>	<u>266,048</u>
Totals	\$680,375	\$ 73,193	\$(270,569)	\$582,999

A summary of proprietary fund type property, plant, and equipment at June 30, 1998 follows:

Sewer system	\$744,815
Gas lines	105,297
Equipment	<u>94,810</u>
Total	\$944,922
Less accumulated depreciation	<u>144,837</u>
	\$800,085

NOTE 7 – PENSION PLAN

Substantially all police employees of the Town of Sorrento are members of the Municipal Police Employees Retirement System of Louisiana ("System"), a cost sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information relative to the plan follows:

Plan Description. All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service or at or after age 50 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 percent of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 7 – PENSION PLAN (continued)

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana, 70809-2250, or by calling (225) 929-7411.

Funding Policy. Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the Town of Sorrento is required to contribute at an actuarially determined rate. The current rate is 9.0 percent of annual covered payroll. The contribution requirements of plan members and the Town of Sorrento are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Town's contributions for the year ending June 30, 1998, 1997, and 1996 were \$3,702, \$4,404, and \$3,397, respectively.

NOTE 8 – CONTRIBUTED CAPITAL – PROPRIETARY FUND

Contributed capital is recorded in the Enterprise Fund for capital grants restricted for the acquisition or construction of capital assets. The Town placed this sewer system (acquired by LCDBG) into service in October 1992. The Town elected to record depreciation of the sewer system as a reduction in the contributed capital account, because it does not plan to recuperate the grant investment through the user fees. The user fees are to be used for operating purposes. The contributed capital account is also used for the recording of the donated property (gas tie-in, piping, metering station, water well, tanks, and pump) at the Cleve Reber site. The same depreciation policy is used for this property as well as the sewer system.

NOTE 9 – CONTINGENCIES

At June 30, 1998, the Town of Sorrento, Louisiana, is involved in no lawsuits and is aware of no claims.

NOTE 10 – YEAR 2000 ISSUE

The Year 2000 Issue consists of two shortcomings that make computer processing systems unable to year-date data beyond the year 1999. The first shortcoming is many computer programs contain abbreviated dates which eliminate the first two digits of the year.

TOWN OF SORRENTO, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998
(continued)

NOTE 10 – YEAR 2000 ISSUE (continued)

Therefore, some computer programs may recognize January 1, 2000, as January 1, 1900 and process data incorrectly or stop processing altogether. The second shortcoming is some computers will be unable to detect the year 2000 is a leap year and may not register the additional day and data calculations may be incorrect.

The Mayor has been assured by the Quick Books Pro company that the software that is being used by the Town is “year 2000 compliant”. Therefore, no problem is foreseen in this area of operation.

TOWN OF SORRENTO, LOUISIANA
SCHEDULE OF COMPENSATION - MAYOR AND COUNCIL MEMBERS
YEAR ENDED JUNE 30, 1998

	<u>MONTHLY</u>	<u>ANNUAL</u>
Mayor - Brenda Melancon	\$ 765	\$ 9,180
<u>COUNCIL MEMBERS</u>		
Earl LeBlanc	200	2,400
Gilda Bourgeois	200	2,400
Duane Humphrey	200	2,400
Camile Trabeau	200	2,400
Danette Becnel	200	2,400

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

To the Honorable Ms. Brenda Melancon, Mayor
and the Members of the Sorrento Council
Town of Sorrento, Louisiana

I have audited the financial statements of the Town of Sorrento, Louisiana, as of and for the year ended June 30, 1998, and have issued my report dated December 23, 1998. I conducted my audit in accordance with generally accepted auditing standard and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Sorrento, Louisiana's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instances of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Sorrento, Louisiana's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial that might be material weaknesses. 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 amount 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

The Honorable Ms. Brenda Melancon, Mayor
and the Members of the Council
Page 2

This report is intended for the information of the Town Council, management, and Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

December 23, 1998

Conrad P. Bourque

TOWN OF SORRENTO, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 1998

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the general purpose financial statements of the Town of Sorrento.
2. There was one reportable condition during the audit of the general purpose financial statements.
3. One instance of noncompliance which was immaterial to the general purpose financial statements of the Town of Sorrento was disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

1. **Reportable Condition**

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

Criteria: There are not enough employees for effective internal controls due to economic and space limitations.

Effect: Internal control is ineffective.

Recommendation: No action recommended.

2. The Legislative Auditor's office is currently investigating alleged improprieties in the Police Department regarding the receipting and depositing of fine income. The Legislative Auditor's office has not finished the investigation and therefore, has not issued any report regarding this matter.

TOWN OF SORRENTO, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
YEAR ENDED JUNE 30, 1998

FINDING

- Condition:* Budget was not amended when actual expenditures plus projected expenditures for the remainder of the year, within a fund, are exceeding estimated budgeted expenditures by 5 percent or more.
- Recommendation:* It was recommended that the governing authority be advised in writing when the above condition is present. At that time, the governing authority shall adopt a budget amendment in an open meeting to reflect such change.
- Current Status:* The Town management does concur with this recommendation and are currently following the required budget practices.

Town of Sorrento

BRENDA MELANCON, Mayor
JEROME KEREK, Chief of Police
FERN BARNETT, Town Clerk
MARTI STOVER, Police Clerk
CAMILE TRABEAU, Mayor Pro-Tem



ALDERMEN
DUANE HUMPHREY
GILDA BOURGEOIS
DANETTE BECNEL
EARL LEBLANC

P.O. Box 65 • Sorrento, Louisiana 70778 • Phone 675-5337

CORRECTIVE ACTION PLAN

December 23, 1998

Dr. Daniel G. Kyle, CPA
Legislative Auditor
P O Box 94397
Baton Rouge, LA 70804-9397

Town of Sorrento respectfully submits the following corrective action plan for the year ended 6-30-98.

Name and address of independent public accounting firm:
Conrad P. Bourque, CPA
P O Box 1123
Gonzales, LA 70707-1123

Audit period: 7-1-97 to 6-30-98

The findings from the 6-30-98 schedule of findings and questioned costs is discussed below. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

1. Reportable condition

Recommendation: None

Action taken: None

2. The Town management has terminated the employee involved in the Police Department situation due to the mishandling of public funds.

Sincerely,


Brenda Melancon, Mayor

BM/fb