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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.

DEC 16 1998

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INDEPENDENT AUDITOR'S REPORT

The Honorable P. M. Woods, Mayor
and Board of Aldermen
Zwolle, Louisiana

I have audited the accompanying general purpose financial statements and the combining, individual fund and account group financial statements of the Town of Zwolle, Louisiana, as of May 31, 1998 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Town of Zwolle, Louisiana, management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards for financial audits contained in 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 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Town of Zwolle, Louisiana, as of May 31, 1998, the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles. Also, in my opinion the combining, individual fund, and account group financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Town of Zwolle at May 31, 1998, and the results of operations of such funds and the cash flows of the individual proprietary fund for the year then ended, in conformity with generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining, individual fund, and account group financial statements. The accompanying financial information listed as "Other Supplementary Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose, combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose, combining, individual fund, and account group financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account group, taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated November 25, 1998 on my consideration of the Town of Zwolle, Louisiana's internal

control structure and a report dated November 25, 1998 on its compliance with laws and regulations.

The financial information for the year ended May 31, 1997, which is included for comparative purposes, were taken from the financial report for that year in which I expressed a unqualified opinion dated January 22, 1998, on the general purpose, combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana.



EUGENE W. FREMAUX II, CPA

November 25, 1998

**GENERAL PURPOSE FINANCIAL STATEMENTS
(COMBINED STATEMENTS - OVERVIEW)**

TOWN OF ZWOLLE, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MAY 31, 1998

	MAY 31, 1998			MAY 31, 1997			
	GOVERNMENTAL FUND TYPE	PROPRIETARY FUND TYPE	ACCOUNT GROUP	GENERAL	ENTERPRISE	FIXED ASSETS	TOTALS (MEMORANDUM ONLY)
ASSETS							
Cash and cash equivalents	\$360,089	\$453,464		\$813,553			\$711,274
Receivables	20,177	29,511		49,688			40,950
Due from Water and Sewer Fund	214,593			214,593			160,666
Due from other governments	4,363			4,363			6,301
Prepaid insurance	4,214			4,214			8,224
Restricted cash and cash equivalents		84,271		84,271			77,614
Land		1,560				\$12,172	13,732
Buildings						85,260	85,260
Equipment						96,801	78,759
Autos and trucks						145,558	145,558
Coding of ordinances						3,250	3,250
Recreation equipment						34,860	34,860
Utility plant and equipment		2,313,891		2,313,891			2,271,143
Accumulated depreciation		(779,923)		(779,923)			(722,915)
Total assets	\$603,436	\$2,102,774	\$377,901	\$3,084,111			\$2,914,676

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

TOWN OF ZWOLLE, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MAY 31, 1998

	FUND TYPE			ACCOUNT GROUP	MAY 31,	
	GOVERNMENTAL	PROPRIETARY	GENERAL		1998	1997
					TOTALS	
					(MEMORANDUM ONLY)	
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$5,094	\$63,758			\$68,852	
Sales taxes payable		389			389	
Payroll taxes withheld and payable	2,974	0			2,974	
Accrued wages payable	8,254				8,254	
Unearned revenue	300				300	
Payable from restricted assets:						
Customers' deposits		21,250			21,250	
Accounts payable		19,000			19,000	
Water revenue bonds - current portion		9,253			9,253	
Interest payable		1,802			1,802	
Water revenue bonds		721,555			721,555	
Due to General Fund		214,593			214,593	
Total liabilities	16,622	1,051,600	0	1,068,222	1,009,642	
Fund Equity:						
Contributed capital		1,064,450			1,064,450	
Investments in general fixed assets			\$377,901		377,901	
Retained earnings:						
Reserved		44,021			44,021	
Unreserved		(57,297)			(57,297)	
Fund balances:						
Unreserved:						
Undesignated	586,814				586,814	
Total retained earnings(deficit)/fund balances	586,814	(13,276)	0	573,538	520,668	
Total fund equity	586,814	1,051,174	377,901	2,015,889	1,905,034	
Total liabilities and fund equity	\$603,436	\$2,102,774	\$377,901	\$3,084,111	\$2,914,676	

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

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
 GOVERNMENTAL FUND TYPE
 GENERAL FUND
 YEARS ENDED MAY 31, 1998 AND 1997

	YEAR ENDED MAY 31,	
	1998	1997
Revenues:		
Taxes	\$303,291	\$288,599
Licenses and permits	69,271	59,021
Intergovernmental	24,284	29,872
Charges for services	41,068	42,603
Fines and forfeits	25,924	37,854
Miscellaneous	19,847	18,684
Total revenues	483,685	476,633
Expenditures:		
Current:		
General government	112,673	120,901
Public safety:		
Police department	170,793	146,515
Fire department	506	732
Highways and streets	105,533	80,069
Health and sanitation	44,481	43,716
Recreation	444	801
Total expenditures	434,430	392,734
Excess of revenues over expenditures	49,255	83,899
Fund balances, beginning of year	537,559	453,660
Fund balances, end of year	\$586,814	\$537,559

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

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (GAAP BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPE
 GENERAL FUND
 YEARS ENDED MAY 31, 1998 AND 1997

	1998			1997		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Taxes	\$277,000	\$303,291	\$26,291	\$274,000	\$288,599	\$14,599
Licenses and permits	64,000	69,271	5,271	61,300	59,021	(2,279)
Intergovernmental	21,600	24,284	2,684	24,300	29,872	5,572
Charges for services	42,500	41,068	(1,432)	42,500	42,603	103
Fines and forfeits	34,000	25,924	(8,076)	38,000	37,854	(146)
Miscellaneous	18,700	19,847	1,147	17,450	18,684	1,234
Total revenues	457,800	483,685	25,885	457,550	476,633	19,083
Expenditures:						
Current:						
General government	113,066	112,673	393	115,720	120,901	(5,181)
Public safety:						
Police department	168,073	170,793	(2,720)	169,600	146,515	23,085
Fire department	0	506	(506)	0	732	(732)
Highways and streets	193,581	105,533	88,048	131,900	80,069	51,831
Health and sanitation	45,222	44,481	741	38,200	43,716	(5,516)
Recreation	1,000	444	556	1,000	801	199
Total expenditures	520,942	434,430	86,512	456,420	392,734	63,686
Excess (deficiency) of revenues over (under) expenditures	(63,142)	49,255	112,397	1,130	83,899	82,769
Other financing uses:						
Operating transfers out	0	0	0	0	0	0
Total other financing uses	0	0	0	0	0	0
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(63,142)	49,255	112,397	1,130	83,899	82,769
Fund balances, beginning of year	537,559	537,559	0	453,660	453,660	0
Fund balances, end of year	\$474,417	\$586,814	\$112,397	\$454,790	\$537,559	\$82,769

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

TOWN OF ZWOLLE, LOUISIANA
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
 PROPRIETARY FUND TYPE
 YEARS ENDED MAY 31, 1998 AND 1997

	YEAR ENDED MAY 31,	
	1998	1997
Operating revenues:	\$169,714	\$163,854
Water charges	51,443	51,322
Sewer charges	13,799	17,702
Tap, connect and reconnect fees	234,956	232,878
Total operating revenues		
Operating expenses:		
Water Department:	1,725	1,725
Audit fee	(110)	(117)
Bad debt expense	37,856	38,467
Depreciation	5,888	7,092
Insurance	1,347	2,805
Miscellaneous	2,660	3,252
Office supplies	2,934	2,565
Payroll taxes	1,751	1,923
Rent	11,639	9,070
Repairs and maintenance	33,850	33,529
Salaries	10,674	27,923
Supplies	1,288	1,083
Telephone	532	501
Travel	2,417	999
Truck expense	20,360	15,364
Utilities	134,811	146,181
Total water department expenses		
Sewer Department:	1,259	2,555
Chemicals	1,725	1,725
Audit fee	0	0
Consultant fees	23,491	22,459
Depreciation	2,192	3,337
Insurance	1,575	682
Miscellaneous	337	0
Office supplies	895	1,936
Payroll taxes	17,368	2,296
Repairs and maintenance	10,393	25,309
Salaries	4,260	3,525
Sewer testing	5,025	4,751
Supplies	20	1,706
Travel	1,060	302
Truck expenses	3,776	3,665
Utilities	73,376	74,248
Total sewer department expenses		
Total operating expenses	208,187	220,429
Operating income (loss)	26,769	12,449
Nonoperating revenues (expenses):	13,937	12,046
Interest income	(37,091)	(37,400)
Interest expense	(23,154)	(25,354)
Net income (loss)	3,615	(12,905)
Retained earnings, beginning of year	(16,891)	(3,986)
Retained earnings (deficit), end of year	(\$13,276)	(\$16,891)

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 COMPARATIVE STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE
 YEARS ENDED MAY 31, 1998 AND 1997

	YEAR ENDED MAY 31,	
	1998	1997
Cash flows from operating activities:		
Cash received from customers	\$227,701	\$231,279
Cash payments to suppliers and employees	(68,466)	(99,196)
Cash received from customers' deposits	5,800	5,750
Cash refunded for customers' deposits	(5,575)	(5,150)
Net cash provided by operating activities	159,460	132,683
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(9,904)	(16,107)
Grant funds received from Louisiana	39,943	0
Interest paid on revenue bonds	(35,695)	(34,721)
Payments for construction activities	(21,053)	(11,231)
Payments for capital acquisitions	(26,034)	(4,917)
Net cash provided (used) by capital and related financing activities	(52,743)	(66,976)
Cash flows from investing activities:		
Receipt of interest	13,937	9,943
Net cash provided by investing activities	13,937	9,943
Net increase (decrease) in cash and cash equivalents	120,654	75,650
Cash and cash equivalents, beginning of year	417,081	341,431
Cash and cash equivalents, end of year	\$537,735	\$417,081
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$26,769	\$11,449
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	61,347	60,926
Provision for doubtful accounts receivable	(84)	(92)
(Increase) decrease in accounts receivable	(7,255)	(599)
Decrease in prepaid insurance	0	1,164
Increase (decrease) in sales taxes payable	(124)	14
Increase (decrease) in accounts payable and accrued wages payable	24,655	(5,466)
Increase in customers' deposits	225	600
Increase (decrease) in due to other funds	53,927	64,687
Total adjustments to operating income (loss)	132,691	121,234
Net cash provided by operating activities	\$159,460	\$132,683

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

(1) Summary of Significant Accounting Policies

The Town of Zwolle was incorporated September 13, 1889, under the provisions of a home rule charter. The Town operates under a Mayor-Board of Aldermen form of government.

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

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

Principles determining scope of reporting entity

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

Fund accounting

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

Governmental Fund - General Fund

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

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

Proprietary Fund - Enterprise Fund

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

In addition to the two broad types of governmental funds, the Town also maintains one account group as described below:

General Fixed Assets Account Group -

This is not a fund but rather an account group that is used to account for general fixed assets acquired principally for general purposes and excludes fixed assets in the Enterprise Fund.

Fixed assets and long-term liabilities

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

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

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

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair market value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. The Town has no long-term liabilities as of May 31, 1995.

The account group is not a "fund". It is concerned only with the measurement of financial position. It is not concerned with measurement of results of operations.

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

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

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

follows:

Water and sewer system	10-50 years
Water wells and pumps	20 years
Water filter systems	10-25 years
Water meters and hydrants	25 years
Trucks	5 years
Equipment	5-25 years

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become susceptible to accrual (i.e., measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except that accumulated unpaid vacation and sick pay are not accrued and principal and interest on general long-term debt is recognized when due. Purchase of various operating supplies are regarded as expenditures at the time purchased.

The primary revenue sources which are susceptible to accrual under the modified accrual basis of accounting include governmental revenues received for a specific period or quarter such as beer tax, tobacco tax, fire insurance tax, garbage charges receivable from the Enterprise Fund, sales taxes, franchise taxes, and interest income. These revenue sources are accrued, when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available. Taxpayer assessed income, such as ad valorem taxes, and gross receipts from fines, occupational licenses and permits are considered measurable when in the hands of collecting governments and are recognized as revenue at that time. Miscellaneous revenues other than interest income are recorded when received in cash because they are generally not measurable until actually received.

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

The Town reports deferred revenue on its combined balance sheet. Deferred revenues

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgets and Budgetary Accounting

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

1. The Town Treasurer prepares a proposed budget and submits same to the Mayor and Board of Aldermen no later than fifteen days 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 ten days after publication of the call for the hearing.
4. After the holding of the public hearing and completion of all action necessary to finalize 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 estimated amounts require the approval of the Board of Aldermen.
6. All budgetary appropriations lapse at the end of each fiscal year.
7. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended from time to time by the Board of Aldermen.
8. A budget is adopted for the Proprietary Fund on an accrual basis.

Cash and cash equivalents

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

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

Cash equivalents - short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments with

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

original maturities of three months or less qualify under this definition.

Bad debts

Uncollectible amounts due for ad valorem taxes and customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

Comparative data

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

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.

Compensated absences

Employees of the Town are entitled to paid vacation depending on job classification, length of service, and other factors. Employees' vacation earned does not accumulate or vest. Therefore, no liability for compensated absences has been recorded in the accompanying financial statements. The Town's policy is to recognize the costs of compensated absences when actually paid to employees.

(2) 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 October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year and penalties are assessed. All ad valorem tax revenues are recognized in compliance with NCGA Interpretation - 3 and GASB Codification Section P70 (Revenue Recognition - Property Taxes) which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period.

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

For the year ended May 31, 1998, taxes of 7.55 mills were levied on property with assessed valuations totaling \$5,364,430. Total taxes levied were \$40,502 which were for general corporate purposes. Ad valorem taxes receivable at May 31, 1998 amounted to \$225.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

(3) Interfund Receivables and Payables

Individual interfund receivables and payable balances at May 31, 1998, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$214,593	\$ 0
Proprietary Fund	0	214,593
<u>Total</u>	<u>\$214,593</u> =====	<u>\$214,593</u> =====

(4) Due from Other Governmental Units

Amounts due from other governmental units at May 31, 1998, consisted of the following:

	<u>General Fund</u>
Beer, tobacco, and video poker taxes due from the State of Louisiana	\$4,363 =====

(5) Restricted Assets - Proprietary Fund Type

Restricted assets were applicable to the following at May 31:

	<u>1998</u>	<u>1997</u>
Customers' deposits	\$ 21,250	\$ 21,025
Revenue bonds:		
Sinking fund	4,223	4,129
Reserve fund	18,549	15,680
Depreciation & contingency fund	18,549	15,680
Construction fund	21,700	21,100
Total restricted assets	<u>\$ 84,271</u> =====	<u>\$ 77,614</u> =====

(6) Changes in Fixed Assets

A summary of changes in general fixed assets follows:

	<u>BALANCE JUNE 1, 1997</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE MAY 31, 1998</u>
Land	\$ 12,172	\$ 0	\$ 0	\$ 12,172
Buildings	85,260	0	0	85,260
Equipment	78,759	18,042	0	96,801
Autos and trucks	145,558	0	0	145,558
Coding of ordinances	3,250	0	0	3,250
Recreation equipment	34,860	0	0	34,860
<u>Total</u>	<u>\$359,859</u> =====	<u>\$18,042</u> =====	<u>\$ 0</u> =====	<u>\$377,901</u> =====

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

A summary of proprietary fund type property, plant and equipment at May 31, 1998 follows:

Building	\$ 5,940
Water system	1,203,589
Sewer system	807,541
Water wells and pumps	152,463
Water filter systems	33,252
Water meters and hydrants	21,604
Trucks	13,432
Equipment	26,235
Construction in progress - sewer plant upgrade	49,835
<u>Total</u>	<u>2,313,891</u>
Less accumulated depreciation	(779,923)
<u>Net</u>	<u>\$1,533,968</u>
	=====

(7) Retirement System

All employees of the Town of Zwolle, including police employees, are covered under the Social Security System. The employees pay 7.65% of their total salaries into the system, while the Town pays in a like amount. The Town contributed \$20,810 to the Social Security System for the year ended May 31, 1998 while the employees contributed a similar amount. The payroll for employees covered by the Social Security System for the year ended May 31, 1998 was \$272,029; the Town's total payroll was \$272,029. Data concerning the actuarial status of this system are unavailable. Future deficits in this system will be financed by the Federal government and the Town has no further liability to the system.

(8) Lease Obligations

The Town is obligated under a certain lease accounted for as an operating lease. This lease is for the use of land comprising 2.98 acres for the operation and drilling of water wells. The term of the lease is forty years with an annual rental of \$1,500 payable monthly at \$125 per month. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreement is not reflected in the Town's account groups. The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of May 31, 1998:

<u>Year ending</u> <u>May 31</u>	<u>Amount</u>
1999	1,500
2000	1,500
2001	1,500
2002	1,500
2003	1,500
Later years	40,625
Total minimum payments required	<u>\$48,125</u>
	=====

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

(9) Cash and Cash Equivalents

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

As described in Note 1, cash equivalents include all short term highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the date of purchase, have a maturity date no longer than three months qualify under this definition.

At May 31, 1998, the Town of Zwolle has cash and cash equivalents totaling \$788,888, as follows:

	General Fund	Enterprise Fund	Total
Demand deposits	\$ (3,117)	\$ 33,077	\$ 29,960
Money market accounts	362,321	504,558	866,879
Savings accounts	785	0	785
Petty cash	100	100	200
	<u>360,089</u>	<u>537,735</u>	<u>897,824</u>
Total cash and cash equivalents	\$360,089 =====	\$537,735 =====	\$897,824 =====

Of the total of \$897,624 deposited in demand and time deposits as of May 31, 1998, \$197,517 was secured through federal depository insurance and \$700,107 was secured by the pledge of securities owned by the depository bank. These securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to both parties. These secured deposits are considered uncollateralized under the provisions of GASB Statement 3; however, Louisiana Revised Statutes require the custodial bank to advertise and sell the pledged securities within ten (10) days of being notified by the Town that the pledging bank has failed to pay deposited funds upon demand.

(10) Long-term Debt

On October 29, 1991, the Town entered into an agreement with Farmers Home Administration (FmHA) to allow the Town to undertake a water system improvement project at an estimated cost of \$975,000. Funding for the project was provided by FmHA by means of issuance of \$780,000 of revenue bonds (Bonds) and by a \$195,000 grant. On April 20, 1992, the Town executed a "Project Advance Agreement" with the Louisiana Public Facilities Authority (LPFA) to provide interim financing for the water system improvement project based on the commitment for permanent financing from FmHA. On September 25, 1993 the Bonds were issued and the interim financing with LPFA was repaid. The Bonds bear interest at the rate of five percent (5%) from the date of issuance. Principal and interest on the Bonds are payable over a forty (40) year period, with the first payment consisting of interest only (\$39,000) which was due on the first anniversary of the issuance date (September 25, 1993). Commencing one month after the first anniversary date, and monthly thereafter, payments of principal and interest will be \$3,799 monthly.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

The following is a schedule by years of future principal payments under the above Bonds:

Year ending <u>May 31</u>	Principal	Interest	Total
1999	9,253	36,330	45,583
2000	9,726	35,857	45,583
2001	10,224	35,359	45,583
2002	10,747	34,836	45,583
2003	11,297	34,286	45,583
Later years	<u>690,858</u>	<u>574,366</u>	<u>1,265,224</u>
Total	\$730,808 =====	\$751,034 =====	\$1,481,842 =====

Under the terms of the bond agreement with FmHA, all income and revenues earned or derived from operations of the utility fund are pledged and dedicated to the retirement of the Bonds, and are to be used for the following expressed purposes:

(a) Payment of all reasonable expenses of operation and maintenance of the system.

(b) Each month there will be set aside into a fund called the "Water Revenue Bond and Interest Sinking Fund" (the "Sinking Fund"), a sum equal to one-twelfth (1/12th) the interest falling due on the next interest payment date during the first year the Bonds are outstanding and, thereafter, a sum equal to the total amount of principal and interest falling due on the next principal and interest payment date together with such additional proportionate sum as may be required to pay said principal and interest as the same respectively become due. Monthly deposits of \$3,250 are required through September 25, 1993, and \$3,799 monthly thereafter. The balance required at May 31, 1998 is \$3,799. The present balance is \$4,223.

(c) There will be set aside monthly into a "Water Revenue Bond Reserve Fund" (the "Reserve Fund"), commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund provided for in paragraph (b) above, the payments into the Reserve Fund to continue until such time as there has been accumulated in the Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the Bonds as a Debt Service Reserve, the money in the Reserve Fund to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. Monthly deposits of \$163 are required through September 25, 1993 and \$190 monthly thereafter until the balance reaches \$45,583. The balance required at May 31, 1998 is \$12,272. The present balance is \$18,549.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

(d) There will be set aside monthly into a "Water Depreciation and Contingency Fund" (the "Contingency Fund") to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, the sum of \$193 per month. The balance required at May 31, 1998 is \$13,124. The present balance is \$18,549.

A portion of retained earnings is reserved to cover these restricted assets for future debt service on the revenue bonds.

(11) Sales and Use Tax

On April 16, 1988, the voters of the Town of Zwolle approved a 1% sales and use tax upon the sale at retail, the use, the lease or rental, the consumption or storage for use or consumption of tangible personal property and on sales of services in the Town. The 1% sales and use tax is dedicated to the General Fund to be used for any lawful corporate purpose as deemed necessary by the Board of Aldermen. Sales taxes receivable as of May 31, 1998 amounted to \$19,953.

(12) Deficit in Retained Earnings

The retained earnings deficit in the Utility Fund at May 31, 1998 is due primarily to an unusually high level of repairs during the 1995 and engineering fees of \$50,960 related to design work on a new wastewater processing plant, which design was subsequently abandoned by the Town. The normal operations of the Utility Fund are expected to eliminate the deficit in retained earnings within the next several years.

(13) Contingencies

Department of Environmental Quality

On June 28, 1991, the Louisiana Department of Environmental Quality (DEQ) issued a "Compliance Order" which alleges the Town violated La. R.S. 30:2076(A)(1)(a) by allowing the discharge of inadequately treated waste water. The "Compliance Order" specified certain interim effluent limitations and monitoring and reporting requirements until December 31, 1992 and effluent limitations and monitoring and reporting requirements to be followed after January 1, 1993. The order also requires certain reports to be submitted to DEQ. Should the Town fail to comply with this "Compliance Order", the Town could be assessed civil penalties in an amount not to exceed \$50,000. The Town is presently attempting to comply with this order and no civil penalties have been assessed. On May 12, 1993 the Town requested an extension of time from DEQ to meet the effluent limitations. On July 19, 1996 the Town received a Water Discharge Permit from DEQ with a requirement that construction of the wastewater upgrade project be completed by October 1, 1997. On December 22, 1997 the Town awarded a construction contract in the amount of \$434,000 for sewer plant improvements which will allow the Town to meet DEQ requirements. Funding for this project is coming from the Louisiana Capital Outlay Budget. This project was completed in October 1998.

Grant Audits

The Town receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed, if any, under the terms and conditions of the appropriate agency.

TOWN OF ZWOLLE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1998

Engineering fees

The Town has been billed by Nowlin & Associates for engineering fees in the amount of \$23,572 in connection with a completed water improvement project. These fees were subject to potential litigation, however the Town settled this matter in November 1998 for \$19,000 and this amount has been added to the water improvement project costs.

The Town has been billed by Balar Associates, Inc. for engineering fees in the amount of \$59,060 related to the design of a new wastewater treatment plant, which design has subsequently been abandoned by the Town. The amount and payment of these fees have been in dispute, and Balar Associates, Inc. filed suit against the Town on October 18, 1995 to recover the billed fees. The Town has recorded an expense of \$50,960 relating to this contract, however the Town plans to contest this suit.

Year 2000

The Town has estimated that approximately \$5,000 will have to be expended to become year 2000 compliant.

(14) Pending Litigation

In addition to the legal proceeding discussed in Note 13, the Town is a party to other legal proceedings involving suits filed against the Town for various reasons, however Town management does not believe the Town is exposed to any material losses in these proceedings. Accordingly, no provision for losses (other than as discussed in Note 13) is included in the financial statements.

FINANCIAL STATEMENTS
OF INDIVIDUAL FUNDS
AND ACCOUNT GROUPS

* * * * *

GENERAL FUND

To account for resources traditionally associated with governments which
are not required to be accounted for in another fund.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
BALANCE SHEET
MAY 31, 1998 AND 1997

ASSETS	1998	1997
Cash and cash equivalents	\$360,089	\$371,807
Receivables	20,177	18,778
Due from Water and Sewer Fund	214,593	160,666
Due from State of Louisiana	4,363	6,301
Prepaid insurance	4,214	8,224
 Total assets	 \$603,436	 \$565,776
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$5,094	\$12,022
Payroll taxes withheld and payable	2,974	5,634
Accrued wages payable	8,254	5,378
Unearned revenue	300	5,183
 Total liabilities	 16,622	 28,217
 Fund Balance:		
Fund balance – undesignated	586,814	537,559
 Total fund balance	 586,814	 537,559
 Total liabilities and fund balance	 \$603,436	 \$565,776

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 1998
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 1997

	1998		1997	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
Revenues:				
Taxes:				
Ad valorem taxes	\$40,000	\$40,081	\$81	\$40,103
Franchise taxes	37,000	41,148	4,148	43,147
Sales taxes	200,000	222,062	22,062	205,349
Total taxes	277,000	303,291	26,291	288,599
Licenses and permits:				
Occupational licenses	62,000	64,394	2,394	58,326
Beer licenses	2,000	4,877	2,877	695
Total licenses and permits	64,000	69,271	5,271	59,021
Intergovernmental:				
Beer tax	6,800	3,659	(3,141)	8,502
Tobacco tax	9,200	9,255	55	10,042
Video poker	2,000	1,918	(82)	2,538
Federal and state grants	0	4,792	4,792	4,624
Payment in lieu of tax - Sabine Parish Housing Authority	3,600	4,660	1,060	4,166
Total intergovernmental revenue	21,600	24,284	2,684	29,872
Charges for services:				
Garbage and trash charges	42,500	41,068	(1,432)	42,603
Total charges for services	42,500	41,068	(1,432)	42,603
Fines and Forfeits:				
Fines	34,000	25,924	(8,076)	37,854
Total fines and forfeits	34,000	25,924	(8,076)	37,854
Miscellaneous revenues:				
Interest income	10,000	11,251	1,251	10,116
Other	8,700	8,596	(104)	8,568
Total miscellaneous revenues	18,700	19,847	1,147	18,684
Total revenues	457,800	483,685	25,885	476,633

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 1998
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 1997

	1998		1997	
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL
Expenditures:				
Current:				
General government:				
Salaries -- Administrative	\$0	\$0	\$0	\$0
Salaries -- Mayor & Alderman	27,000	22,500	(4,500)	24,442
Salaries -- office	20,000	14,159	(5,841)	18,432
Legal & accounting	2,000	3,301	1,301	2,611
Payroll taxes	3,596	3,016	(580)	3,280
Unemployment benefits	0	7	7	(835)
Office supplies & printing	6,300	5,733	(567)	4,625
Insurance	10,350	13,934	3,584	17,427
Court costs	0	0	0	0
Depot maintenance	400	8	392	253
Audit	3,450	3,450	0	3,450
Dues and subscriptions	600	377	223	326
Advertising	3,000	1,080	1,920	2,885
Supplies	5,500	4,528	972	5,857
Utilities and telephone	7,520	11,342	(3,822)	7,660
Collection fee	3,900	4,940	(1,040)	4,034
Repairs & maintenance	6,750	1,482	5,268	2,998
Travel & seminars	6,000	5,273	727	6,505
Miscellaneous	1,700	10,207	(8,507)	5,711
Fiesta expense	2,000	1,650	350	2,137
Capital outlay	3,000	5,686	(2,686)	9,103
 Total general government	 113,066	 112,673	 393	 120,901
 Public safety:				
Police department:				
Salaries	108,800	120,142	(11,342)	98,844
Training	1,200	1,071	129	970
Jail expense	0	0	0	428
Police car expense	17,500	17,665	(165)	14,628
Insurance	15,650	12,409	3,241	16,137
Miscellaneous	5,900	3,248	2,652	4,196
Supplies	3,000	2,246	754	2,108
Payroll taxes	8,323	9,191	(868)	7,585
Telephone	1,200	896	304	1,443
Uniform maintenance	1,500	2,090	(590)	176
Capital outlay	5,000	1,835	3,165	0
 Total police department	 168,073	 170,793	 (2,720)	 146,515

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES --
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED MAY 31, 1998
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MAY 31, 1997

	1998		1997
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE) ACTUAL
Expenditures: (continued)			
Fire department	\$0	\$506	(\$506) \$732
Highways and streets:			
Salaries	37,000	39,521	(2,521) 32,374
Payroll taxes	2,831	3,023	(192) 2,477
Repairs & maintenance	102,500	2,678	99,822 1,574
Supplies & materials	12,000	20,171	(8,171) 13,633
Miscellaneous	650	1,368	(718) 2,278
Street signs	1,200	0	1,200 111
Street lighting	20,000	18,007	1,993 19,858
Street truck & tractor expense	4,500	4,414	86 2,959
Insurance	7,900	6,336	1,564 4,805
Capital outlay	5,000	10,015	(5,015) 0
Total highways and streets	193,581	105,533	88,048 80,069
Health and sanitation:			
Salaries	31,000	31,464	(464) 31,375
Payroll taxes	2,372	2,407	(35) 2,400
Garbage truck expense	4,400	1,773	2,627 1,861
Miscellaneous	700	571	129 1,018
Insurance	6,350	8,054	(1,704) 6,640
Supplies	400	212	188 422
Capital outlay	0	0	0 0
Total health and sanitation	45,222	44,481	741 43,716
Recreation:			
Repair & maintenance	700	159	541 180
Miscellaneous	100	285	(185) 583
Utilities	200	0	200 38
Total recreation	1,000	444	556 801
Total expenditures	520,942	434,430	86,512 392,734
Excess (deficiency) of revenues over (under) expenditures	(63,142)	49,255	112,397 83,899
Fund balance, beginning of year	537,559	537,559	0 453,660
Fund balance, end of year	\$474,417	\$586,814	\$112,397 \$537,559

The accompanying notes are an integral part of these statements.

ENTERPRISE FUND

Water and Sewer Fund - To account for the provision of water and sewer services to 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, and billing and collection.

TOWN OF ZWOLLE, LOUISIANA
ENTERPRISE FUND – WATER AND SEWER FUND
COMPARATIVE BALANCE SHEET
MAY 31, 1998 AND 1997

ASSETS	1998	1997
Current assets:		
Cash and cash equivalents	\$453,464	\$339,467
Accounts receivable, net of allowance for doubtful accounts of \$2,853 in 1998 and \$2,937 in 1997	29,511	22,172
Prepaid insurance	0	0
Total current assets	482,975	361,639
Restricted assets:		
Cash and cash equivalents		
Customers' deposits	21,250	21,025
Revenue bonds:		
Sinking fund	4,223	4,129
Reserve fund	18,549	15,680
Depreciation & contingency fund	18,549	15,680
Construction fund	21,700	21,100
Total restricted assets	84,271	77,614
Land	1,560	1,560
Plant and equipment, at cost, net of accumulated depreciation of \$779,923 in 1998 and \$722,915 in 1997	1,533,968	1,548,228
Total assets	\$2,102,774	\$1,989,041

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
ENTERPRISE FUND -- WATER AND SEWER FUND
COMPARATIVE BALANCE SHEET
MAY 31, 1998 AND 1997

LIABILITIES AND FUND EQUITY	1998	1997
Liabilities:		
Current liabilities (payable from current assets):		
Accounts payable	\$63,758	\$56,198
Sales taxes payable	389	513
Accrued wages payable	0	1,905
Due to General Fund	214,593	160,666
Total current liabilities (payable from current assets)	278,740	219,282
Current liabilities (payable from restricted assets):		
Customers' meter deposits	21,250	21,025
Accounts payable	19,000	0
Water revenue bonds	9,253	8,753
Interest payable	1,802	406
Total current liabilities (payable from restricted assets)	51,305	30,184
Long-term liabilities:		
Water revenue bonds	721,555	731,959
Total liabilities	1,051,600	981,425
Fund equity:		
Contributed capital--		
Municipality	133,944	133,944
Federal Revenue Sharing	62,540	62,540
HUD block grant	72,272	72,272
FHA grant	195,000	195,000
Louisiana sewer grant	39,943	0
LDUCA CDB grant	560,751	560,751
Total contributed capital	1,064,450	1,024,507
Retained earnings (deficit):		
Reserved for revenue bonds--		
Sinking fund	4,223	4,129
Reserve fund	18,549	15,680
Depreciation & contingency fund	18,549	15,680
Construction fund	2,700	21,100
Unreserved (deficit)	(57,297)	(73,480)
Total retained earnings (deficit)	(13,276)	(16,891)
Total fund equity	1,051,174	1,007,616
Total liabilities and fund equity	\$2,102,774	\$1,989,041

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS --
 WATER AND SEWER FUND -- BUDGET (GAAP BASIS) AND ACTUAL
 YEARS ENDED MAY 31, 1998 AND 1997

	1998		VARIANCE FAVORABLE (UNFAVORABLE)	1997
	BUDGET	ACTUAL		ACTUAL
Operating revenues:				
Water charges	\$170,000	\$169,714	(\$286)	\$163,854
Sewer charges	53,000	51,443	(1,557)	51,322
Tap, connect and reconnect fees	12,950	13,799	849	17,702
Total operating revenues	<u>235,950</u>	<u>234,956</u>	<u>(994)</u>	<u>232,878</u>
Operating expenses:				
Water Department:				
Audit fee	1,750	1,725	25	1,725
Bad debt expense	50	(110)	160	(117)
Depreciation	37,000	37,856	(856)	38,467
Insurance	9,450	5,888	3,562	7,092
Miscellaneous	900	1,347	(447)	2,805
Office supplies	4,100	2,660	1,440	3,252
Payroll taxes	2,678	2,934	(256)	2,565
Rent	1,550	1,751	(201)	1,923
Repairs and maintenance	19,500	11,639	7,861	9,070
Salaries	35,000	33,850	1,150	33,529
Supplies	28,000	10,674	17,326	27,923
Telephone	1,054	1,288	(234)	1,083
Travel	1,500	532	968	501
Truck expense	4,000	2,417	1,583	999
Utilities	18,500	20,360	(1,860)	15,364
Total water department expenses	<u>165,032</u>	<u>134,811</u>	<u>30,221</u>	<u>146,181</u>
Sewer Department:				
Chemicals	6,000	1,259	4,741	2,555
Audit fee	1,700	1,725	(25)	1,725
Consultant fees	0	0	0	0
Depreciation	21,000	23,491	(2,491)	22,459
Insurance	1,400	2,192	(792)	3,337
Miscellaneous	844	1,575	(731)	682
Office supplies	50	337	(287)	0
Payroll taxes	1,683	895	788	1,936
Repairs and maintenance	12,000	17,368	(5,368)	2,296
Salaries	22,000	10,393	11,607	25,309
Sewer testing	3,500	4,260	(760)	3,525
Supplies	3,000	5,025	(2,025)	4,751
Travel	2,500	20	2,480	1,706
Truck expenses	0	1,060	(1,060)	302
Utilities	6,000	3,776	2,224	3,665
Total sewer department expenses	<u>81,677</u>	<u>73,976</u>	<u>8,301</u>	<u>74,248</u>
Total operating expenses	<u>246,709</u>	<u>208,187</u>	<u>38,522</u>	<u>220,429</u>
Operating income (loss)	<u>(10,759)</u>	<u>26,769</u>	<u>37,528</u>	<u>12,449</u>
Nonoperating revenues (expenses):				
Interest income	11,000	13,937	2,937	12,046
Interest expense	(37,256)	(37,091)	165	(37,400)
	<u>(26,256)</u>	<u>(23,154)</u>	<u>3,102</u>	<u>(25,354)</u>
Net income (loss)	<u>(37,015)</u>	<u>3,615</u>	<u>40,630</u>	<u>(12,905)</u>
Retained earnings, beginning of year	<u>(16,891)</u>	<u>(16,891)</u>	<u>0</u>	<u>(3,986)</u>
Retained earnings (deficit), end of year	<u>(\$53,906)</u>	<u>(\$13,276)</u>	<u>\$40,630</u>	<u>(\$16,891)</u>

The accompanying notes are an integral part of these statements.

GENERAL FIXED ASSETS ACCOUNT GROUP

To account for fixed assets not used in proprietary fund operations.

TOWN OF ZWOLLE, LOUISIANA
COMPARATIVE STATEMENT OF GENERAL FIXED ASSETS
MAY 31, 1998 AND 1997

	1998	1997
<i>General fixed assets, at cost:</i>		
Land	\$12,172	\$12,172
Buildings	85,260	85,260
Equipment	96,801	78,759
Automobiles, trucks and machinery	145,558	145,558
Coding of ordinances	3,250	3,250
Recreation equipment	34,860	34,860
Total general fixed assets	\$377,901	\$359,859
 <i>Investment in general fixed assets:</i>		
General fund revenues	\$222,183	\$204,141
Federal revenue sharing funds	120,215	120,215
Grants	16,774	16,774
Contributions	18,729	18,729
Total investment in general fixed assets	\$377,901	\$359,859

The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE, LOUISIANA
 STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
 YEAR ENDED MAY 31, 1998

	LAND	BUILDINGS	EQUIPMENT	AUTOMOBILES, TRUCKS AND MACHINERY	CODING OF ORDINANCES	RECREATION EQUIPMENT	TOTAL
General fixed assets, June 1, 1997	\$12,172	\$85,260	\$78,759	\$145,558	\$3,250	\$34,860	\$359,859
Additions	0	0	18,042	0	0	0	18,042
Deductions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
General fixed assets, May 31, 1998	<u>\$12,172</u>	<u>\$85,260</u>	<u>\$96,801</u>	<u>\$145,558</u>	<u>\$3,250</u>	<u>\$34,860</u>	<u>\$377,901</u>

The accompanying notes are an integral part of these statements.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF ZWOLLE, LOUISIANA
 SCHEDULE OF PER DIEM PAID THE BOARD OF ALDERMEN
 YEAR ENDED MAY 31, 1998

P. M. Woods	\$12,000
Allen Rivers	2,100
Charles Miller	2,100
Martha Henderson	2,100
Cloteal Polk	2,100
Carolyn Cutright	2,100

Supplementary schedule. Presented as additional analytical data.

SCHEDULE 2

TOWN OF ZWOLLE, LOUISIANA
 FARMERS HOME ADMINISTRATION
 SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 WATER SYSTEM IMPROVEMENT PROJECT
 YEAR ENDED MAY 31, 1998, 1997, 1996, 1995, 1994 AND 1993

	1997	1997	1996	1995	1994	1993	1992	PROGRAM TOTAL
CASH IN BANK, JUNE 1,	\$21,100	\$21,100	\$21,100	\$71,463	\$3,788	\$894	\$0	\$0
Cash receipts:								
FmHA grant	0	0	0	0	195,000	0	0	195,000
FmHA loan proceeds	0	0	0	0	0	643,337	136,563	780,000
Total cash receipts	0	0	0	0	195,000	643,337	136,563	975,000
Cash disbursements:								
Engineering fees	0	0	0	8,501	25,763	41,360	44,000	119,624
Legal fees	0	0	0	0	0	12,031	10,000	22,031
Interest	0	0	0	0	0	7,833	0	7,833
Construction	0	0	0	41,862	101,562	579,219	81,769	804,412
Total cash disbursements - construction projects	0	0	0	50,363	127,325	640,443	135,769	953,900
CASH IN BANK, MAY 31,	\$21,100	\$21,100	\$21,100	\$21,100	\$71,463	\$3,788	\$894	\$21,100

Supplementary schedule. Presented as additional analytical data.

SINGLE AUDIT SECTION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS
AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable P. M. Woods, Mayor
and Board of Aldermen
Zwolle, Louisiana

I have audited the general purpose financial statements of the Town of Zwolle, Louisiana, and the combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana, for the year ended May 31, 1998, and have issued my report thereon dated November 25, 1998.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

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

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

I noted certain immaterial instances of noncompliance that I have reported to management of the Town of Zwolle in a separate letter dated November 25, 1998.

This report is intended for the information of the Mayor and Board of Aldermen and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.



EUGENE W. FREMAUX II, CPA

November 25, 1998

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE RELATED MATTERS NOTED IN FINANCIAL STATEMENT
AUDIT CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable P. M. Woods, Mayor
and Board of Aldermen
Zwolle, Louisiana

I have audited the general purpose financial statements of the Town of Zwolle, Louisiana, and the combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana, for the year ended May 31, 1998, and have issued my report thereon dated November 25, 1998.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Town of Zwolle, 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 general purpose 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.

In planning and performing my audit of the general purpose financial statement of the Town of Zwolle, Louisiana, for the year ended May 31, 1998, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted certain matters, described below, involving the internal control structure and its operation that I consider to be a material weakness and a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements. A material weakness is a reportable condition in which the

design or operation of one or more 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. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in my audit of the financial statements of the Town of Zwolle, Louisiana, for the year ended May 31, 1998.

STATUS OF PRIOR YEAR RECOMMENDATIONS

1. Existing condition

During the year ended May 31, 1997 the Town had turnover in the bookkeeping position four times. In addition, in the middle of the year the Town changed accounting software packages. The resulting delays in producing monthly financial statements were inevitable given the surrounding turnover circumstances coupled with a change in the accounting software. However, during the latter part of the year procedures previously adopted to insure adequate internal control over general ledger processing and reliable monthly financial statements were overlooked. As a result, the primary bank accounts in each fund were not being reconciled. The lack of timely reconciliation allowed numerous errors, such as unposted deposits and checks, and posting errors, to go undetected for months. These errors resulted in unreliable interim monthly financial statements. In addition, this situation could allow bank errors or defalcations to go undetected for months.

The bank accounts for the year ended May 31, 1998 were not reconciled until November 1998. The lack of timely reconciliation allowed numerous errors, such as unposted deposits and checks, and posting errors, to go undetected until November 1998. These errors resulted in unreliable interim monthly financial statements. In addition, this situation could allow bank errors or defalcations to go undetected for months.

Recommended action

The checklist and review procedures adopted by the Council, and implemented in October 1995, as outlined in my management letter dated November 15, 1996, should be reimplemented as soon as possible so that adequate internal controls will exist over the general ledger posting. These procedures require the use of a comprehensive month end general ledger closing checklist, with appropriate review by the Alderman assigned to the Treasurer function.

Action taken

The newly hired clerk has reconciled all the bank accounts through October 31, 1998 and has been instructed to furnish copies of all bank reconciliations to the Treasurer with the monthly financial statements.

2. Existing condition

During the year ended May 31, 1997 the Police Department (1) hired a clerk, (2) acquired a software database package to track tickets, prepare dockets for Mayor's Court and maintain defendant history, and (3) changed the procedures for handling tickets. All processing of tickets from issuance to ultimate disposition is now handled by the clerk in the police department, including receiving payment and preparing the cash receipt and the related bank deposit slip.

The police software database package is definitely a step in the right direction by the police department in terms of efficiency and the availability of historical information, however the software does not provide adequate control over processing of tickets. The software appears

to be unable to provide a number of vital reports, such as (1) listing of tickets in numeric sequence, (2) report of unpaid tickets, (3) report of unserved bench warrants, (4) report of tickets sent to Louisiana Department of Public Safety, District Court, and Juvenile Court, (5) report of fines being paid under the installment plan, (6) report of outstanding community service obligations, (7) report of missing tickets, and (8) report of bonds outstanding. The software does not have an input field to capture the cash receipt number when the ticket is paid. In addition, the software has no password controls on updating records, therefore anyone with physical access to the computer could update records. The clerk indicated that the vendor had provided no training, nor was there any user documentation for the system.

The manual numeric log, maintained by the Town clerk, is no longer being used.

In addition, the Mayor has indicated that he has a problem with the current system used by the Police Department, since he does not have access to the computer database, therefore he cannot obtain information needed to discuss charges with defendants when they contact him. In addition, the Mayor indicated that the Police Department does not provide him tickets related to Mayor's Court until immediately preceding Court, therefore he has inadequate time to review tickets prior to Court. The Mayor has also indicated that access to the tickets maintained in the Police Department office is also a problem at times since the Police Chief has refused to furnish him a key to the office.

Recommended action

The software vendor should be contacted to determine if changes in the software can be made to correct some of the internal control deficiencies outlined above. In addition, the vendor should also be requested to provide proper training in the use of the software and appropriate user documentation. Until these changes are implemented, the following procedures should be implemented to provide adequate control over tickets from issuance until disposition:

1. Payments for fines should only be accepted at the front counter during normal business hours. The ticket number and type of payment should be shown on the cash receipt. The original of the cash receipt should go to the defendant, the second copy should be filed with the blue copy of the ticket in the bookkeeping office numerically in paid ticket file, and the third copy should remain in the cash receipt book. No member of the Police Department, no member of the Council, nor the Mayor should accept payment of any ticket.
2. The Police Department should maintain a cash receipt book to receive cash for cash bonds taken after business hours and dropped in the night deposit.
3. The Police Department clerk should continue to maintain numeric files of the yellow copy of the tickets. In addition, she should maintain control over unused tickets and post all tickets issued, and related activity, to the ticket database.
4. The Town clerk or bookkeeper should maintain files of blue copies of tickets in numeric order, by category (paid, unpaid, sent to DPS for collection, sent to District Court, etc.).
5. The Mayor should be trained to use the computer database for query purposes and given access to the database and the related records. In addition, the Police clerk should furnish the Mayor a draft copy of the Court docket, with related supporting documents, a day or two before Court.

6. The Town clerk or bookkeeper should maintain a numeric ticket log which accounts for all tickets from issuance until disposition.
7. All records relating to a given ticket (cash receipt, bench warrant, community service record, etc.) should be maintained with the blue copy of the ticket.
8. A subsidiary record should be maintained for all tickets being paid in installments.

The above recommendations should provide adequate internal controls and segregation of duties. Procedures should be reevaluated if significant changes are made to the software.

Action taken

1. In general, payment for fines are only taken at the front counter during normal business hours.
2. The Police Department does maintain a cash receipt book for cash bonds taken after business hours.
3. The Police Department clerk does maintain numeric files of the yellow copy of the tickets and control over unused tickets. The clerk also posts all activity to the ticket database.
4. Blue ticket copies are currently maintained by the Mayor.
5. The Police Chief has offered the Mayor access to the database during normal business hours.
6. A comprehensive numeric log from issuance until disposition is not maintained, except for the information available in the computer ticket database.
7. This information is only available in the computer database.
8. This information is only available in the computer database.

The software vendor has been contacted about making changes in the software which will enhance the internal controls of the system.

I also noted other matters involving the internal control structure and its operation that I have reported to the management of the Town of Zwolle, in a separate letter dated November 25, 1998.

This report is intended for the information of the Mayor and Board of Aldermen and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.



EUGENE W. FREMAUX, CPA

November 25, 1998

Honorable P. M. Woods, Mayor
and Board of Aldermen
Town of Zwolle, Louisiana

Dear Mayor and Aldermen:

In connection with my audit of the general purpose, combining, individual fund, and account group financial statements of the Town of Zwolle, Louisiana for the year ended May 31, 1998, I offer the following observations and recommendations, which are intended to help improve record keeping procedures and are intended to be constructive in nature:

STATUS OF PRIOR YEAR RECOMMENDATIONS

1. Existing condition

Occupational license applications are not being date stamped when received, so there is no documentation of when these applications are actually received, therefore it is difficult to determine if interest and penalty should be collected on returns filed after the due date. In addition, no interest or penalty was collected on delinquent occupational licenses for 1997. Also, as of November 30, 1997, one taxpayer owes delinquent occupational and alcohol taxes for 1996 and 1997, despite the office staff sending a certified request for payment.

Recommended action

The Council should adopt specific guidelines to be followed by the office staff in dealing with delinquent occupational licenses, such as:

1. 14 days after due date - Send reminder notice.
2. 45 days after due date - Send certified letter.
3. 55 days after due date - furnish delinquent list to Council members.
4. 65 days after due date - turn taxpayer names over to Town's attorney for appropriate legal action.
5. Payments from delinquent taxpayers should not be accepted without the payment of appropriate penalty and interest as specified in the occupational license application.
6. Applications received by mail after the due date should have the envelope attached as proof of date of mailing.

The guidelines should be designed to provide equal and fair treatment of all taxpayers, timely collection of these licenses, and specific guidelines to the office staff in dealing with delinquent taxpayers.

In addition, a copy of the prenumbered cash receipt for payment should be attached to the application, and the application should indicate the occupational license number issued to the taxpayer.

Action taken

The Council has adopted formal guidelines, similar to the above suggestions, to be followed by the office staff in dealing with delinquent occupational licenses.

2. Existing condition

At November 30, 1997 approximately 60 taxpayers had not paid their 1996 ad valorem taxes despite publishing the list in the local paper and other collection efforts by the office staff.

Recommended action

The Council should adopt specific guidelines to be followed by the office staff in dealing with delinquent ad valorem taxes, which should include a tax sale of the property. The guidelines should be designed to provide equal and fair treatment of all taxpayers, timely collection of these taxes, and specific guidelines to the office staff in dealing with delinquent taxpayers.

Action taken

The Council has adopted appropriate guidelines for handling of delinquent ad valorem taxes.

3. Existing condition

The Council minutes pages are not numbered nor are they signed by the Mayor and the Council Secretary.

Recommended action

The minutes of the Council meetings should be page numbered and signed by the Mayor and the Council Secretary to indicate that they are true and complete records of the Council proceedings, as approved by the Council. In addition, the originals of the minutes, or a copy thereof, should be available to the office staff during normal business hours for their use.

Action taken

Council minutes are being signed by the Mayor and the Council Secretary, and the pages are numbered.

4. Existing condition

For a number of years the Town has provided support to the Zwolle Tamale Fiesta by participation in Fiesta events, by providing police services during the Fiesta, and by funding one-half of the cost of the liability insurance policy taken out by the Fiesta association. State law provides that municipalities can only provide financial support to non-profit organizations in situations where the project is a cooperative project which benefits the citizens of the municipality. However, the benefits of supporting the Fiesta have not been documented.

Recommended action

The Town should enter into a formal, written cooperative agreement with the Fiesta association, which outlines the extent of the Town's commitment of resources to the Fiesta, along with documentation of the benefits to be derived for the citizens of Zwolle, who are providing the resources to the Fiesta organization.

Action taken

The Council has adopted a resolution which substantially meets the above recommendation.

5. Existing condition

Each Council member and the Mayor have authority to authorize purchases up to \$500, however purchase orders are prepared daily by the office staff for purchases under \$500 without any formal authorization. Also, purchase orders are not always prepared in advance of the purchase.

Recommended action

Purchase orders should be used to provide authorization for the employee to purchase the item and to document why the item needs to be purchased and what department is to be charged for the purchase. If this authorization can only come from the Mayor or a Council member, then the Mayor (or a Council member) should be required to approve (authorize) all purchase orders in writing, before the item is purchased. Purchase orders should not be issued for recurring bills (such as electricity, etc.) and, on a practical basis, should not be required for items under some limit (such as \$10.00).

Action taken

The above changes have been made, however a review of purchase orders indicated that written approval was not always obtained on the purchase. According to the clerk who maintains the purchase order book, purchase orders are approved (some by telephone) before the purchase is made. As a practical matter, some purchase orders will be generated by telephone calls, however written approval of the purchase order should still be obtained at the earliest opportunity.

CURRENT YEAR RECOMMENDATIONS

1. Existing condition

The budget for the year ended May 31, 1998 was not adopted until June 1997. In addition, the budget for the year ending May 31, 1999 was not adopted prior to July 7, 1998. Louisiana budget laws require the budget to be adopted prior to the beginning of the year.

Recommended action

The budget should be prepared and adopted prior to the beginning of the year.

Management's response

The council will adopt a budget for the year ending May 31, 2000 before May 31, 1999.

* * * * *

The above observations and recommendations are not all inclusive. I would like to thank you, the Board of Aldermen, and the Town employees for your cooperation during my engagement.

Sincerely,



EUGENE W. FREMAUX, CPA

November 25, 1998