



## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1 - 2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups .....	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types.....	4
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (GAAP Basis) and Actual - General Fund.....	5
Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type.....	6
Statement of Cash Flows Proprietary Fund Type.....	7
Notes to Financial Statements .....	8-20
Schedule of Expenditures of Federal Awards .....	21
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	22-23
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	24-25
Schedule of Findings and Questioned Costs.....	26-27
Schedule of Prior Year Findings and Questioned Cost .....	28-29
Management's Corrective Action Plan.....	30-31

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October 26, 1999

Independent Auditors' Report

The Honorable Freddie Boswell, Mayor  
and Members of the Board of Aldermen  
Town of New Llano, Louisiana

We have audited the accompanying general purpose financial statements of the Town of New Llano, Louisiana as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of New Llano, Louisiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Governmental accounting standards require disclosure of certain matters regarding the year 2000 issue. Due to the unprecedented nature of the year 2000 issue, management believes that its effects and the success of remediation efforts will not be fully determinable before the year 2000. Since the effects of the year 2000 issue and the success of remediation efforts cannot be readily determined at the present time, management has elected to omit the required disclosures from the accompanying financial statements.

In our opinion, except for the omission of disclosures regarding the year 2000 issue as discussed in the previous paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of New Llano, Louisiana, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 1999, on our consideration of the Town of New Llano, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of the Town of New Llano, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



ROZIER, HARRINGTON & MCKAY  
Certified Public Accountants

**TOWN OF NEW LLANO, LOUISIANA**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**

June 30, 1999  
 With Comparative Totals for June 30, 1998

	Governmental Funds		Proprietary Funds		Account Groups		Memorandum Totals	
	General	Capital	Enterprise	General	Fixed Assets	1999	1998	
		Projects						
<u>Assets</u>								
Cash and cash equivalents	\$ 102,998	\$ 743	\$ 40,172	\$ -	\$ -	\$ 143,913	\$ 277,842	
Receivables (net of allowance for doubtful accounts)	21,843	-	51,099	-	-	72,942	69,004	
Due from other funds	100	-	43	-	-	143	143	
Due from other governments	77,219	98,124	-	-	-	175,343	64,872	
Restricted cash and cash equivalents	-	-	115,824	-	-	115,824	115,428	
Property and equipment (net of accumulated depreciation)	-	-	2,446,457	1,275,819	-	3,722,276	3,125,525	
<b>Total assets</b>	<b>\$ 202,160</b>	<b>\$ 98,867</b>	<b>\$ 2,653,595</b>	<b>\$ 1,275,819</b>	<b>\$ -</b>	<b>\$ 4,230,441</b>	<b>\$ 3,652,814</b>	
<u>Liabilities and fund equity</u>								
<u>Liabilities:</u>								
Accounts payable	\$ 22,995	\$ 98,124	\$ 17,304	\$ -	\$ -	\$ 138,423	\$ 139,635	
Accrued liabilities	12,265	-	10,802	-	-	23,067	22,220	
Payable from restricted assets:								
Customer deposits	-	-	51,529	-	-	51,529	49,296	
Current portion of long-term debt	-	-	35,000	-	-	35,000	-	
Revenue bonds payable	-	-	772,000	-	-	772,000	840,920	
Capital leases payable	-	-	34,460	-	-	34,460	-	
Due to other funds	-	143	-	-	-	143	-	
<b>Total liabilities</b>	<b>35,260</b>	<b>98,267</b>	<b>921,095</b>	<b>-</b>	<b>-</b>	<b>1,054,622</b>	<b>1,052,214</b>	
<u>Fund equity:</u>								
Investment in general fixed assets	-	-	-	1,275,819	-	1,275,819	1,153,636	
Contributed capital	-	-	1,295,384	-	-	1,295,384	852,869	
Retained earnings:								
Unrestricted	-	-	407,821	-	-	407,821	305,875	
Restricted by bond indenture	-	-	29,295	-	-	29,295	-	
Fund balance:								
Unreserved	166,900	600	-	-	-	167,500	288,220	
<b>Total fund equity</b>	<b>166,900</b>	<b>600</b>	<b>1,732,500</b>	<b>1,275,819</b>	<b>-</b>	<b>3,175,819</b>	<b>2,600,600</b>	
<b>Total liabilities and fund equity</b>	<b>\$ 202,160</b>	<b>\$ 98,867</b>	<b>\$ 2,653,595</b>	<b>\$ 1,275,819</b>	<b>\$ -</b>	<b>\$ 4,230,441</b>	<b>\$ 3,652,814</b>	

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF NEW LLANO, LOUISIANA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**All Governmental Fund Types**  
For the year ended June 30, 1999  
With Comparative Totals for the Year Ended June 30, 1998

	General	Capital Projects	Memorandum Totals	
			1999	1998
<b>Revenues:</b>				
Taxes:				
Ad valorem	\$ 18,921	\$ -	\$ 18,921	\$ 20,356
Sales tax	85,107	-	85,107	87,297
Licenses and permits:				
Occupational licenses	50,038	-	50,038	42,511
Franchise	64,729	-	64,729	63,432
Intergovernmental:				
Tobacco tax	13,511	-	13,511	13,511
Beer tax	3,797	-	3,797	2,871
Video poker	301,026	-	301,026	311,227
Grant revenues	10,999	436,255	447,254	81,708
Miscellaneous:				
Fines	57,549	-	57,549	39,919
Interest	-	-	-	2,391
Other	19,233	-	19,233	560
<b>Total revenues</b>	<b>624,910</b>	<b>436,255</b>	<b>1,061,165</b>	<b>665,783</b>
<b>Expenditures:</b>				
General government	143,969	-	143,969	140,114
Public safety	283,533	-	283,533	302,393
Streets and Drainage	71,205	-	71,205	78,848
Capital Outlays	125,396	442,514	567,910	197,936
<b>Total expenditures</b>	<b>624,103</b>	<b>442,514</b>	<b>1,066,617</b>	<b>719,291</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>807</b>	<b>(6,259)</b>	<b>(5,452)</b>	<b>(53,508)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	6,260	6,260	215,135
Operating transfers out	(112,305)	(9,223)	(121,528)	(88,569)
<b>Total other financing sources (uses)</b>	<b>(112,305)</b>	<b>(2,963)</b>	<b>(115,268)</b>	<b>126,566</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other uses</b>	<b>(111,498)</b>	<b>(9,222)</b>	<b>(120,720)</b>	<b>73,058</b>
<b>Fund balance - beginning</b>	<b>278,398</b>	<b>9,822</b>	<b>288,220</b>	<b>215,162</b>
<b>Fund balance - end of year</b>	<b>\$ 166,900</b>	<b>\$ 600</b>	<b>\$ 167,500</b>	<b>\$ 288,220</b>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF NEW LLANO, LOUISIANA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**General Fund**  
For the year ended June 30, 1999

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Taxes	\$ 93,000	\$ 104,028	\$ 11,028
License and permits	127,000	114,767	(12,233)
Intergovernmental	266,500	329,333	62,833
Miscellaneous	70,500	76,782	6,282
<b>Total revenues</b>	<u>557,000</u>	<u>624,910</u>	<u>67,910</u>
<b>Expenditures:</b>			
General and administrative	149,950	143,969	5,981
Public safety	295,400	283,533	11,867
Streets and drainage	99,700	71,205	28,495
Capital Outlays	197,000	125,396	71,604
<b>Total expenditures</b>	<u>742,050</u>	<u>624,103</u>	<u>117,947</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(185,050)</u>	<u>807</u>	<u>185,857</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	72,000	-	(72,000)
Operating transfers out	-	(112,305)	(112,305)
<b>Total other financing sources (uses)</b>	<u>72,000</u>	<u>(112,305)</u>	<u>(184,305)</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other uses</b>	<u>(113,050)</u>	<u>(111,498)</u>	<u>1,552</u>
<b>Fund balance - beginning of year</b>	<u>278,398</u>	<u>278,398</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 165,348</u>	<u>\$ 166,900</u>	<u>\$ 1,552</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF NEW LLANO, LOUISIANA**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS**  
**Proprietary Fund Type**  
For the year ended June 30, 1999  
With Comparative Totals for the Year Ended June 30, 1998

	Enterprise Funds	
	1999	1998
<b><u>Operating revenues:</u></b>		
Water charges	\$ 226,408	\$ 198,711
Sewer charges	149,014	127,922
Service charges, penalties, and late fees	13,190	9,826
Miscellaneous	272	2,621
	<b>388,884</b>	<b>339,080</b>
<b><u>Operating expenses:</u></b>		
Water purchases	90,480	75,577
Salaries and wages	82,679	87,569
Materials, supplies, and maintenance	15,836	10,778
Office and postage	2,241	2,764
Payroll taxes	8,505	7,803
Vehicle and travel	1,298	-
Insurance	14,998	17,292
Bad debts	-	14,097
Professional fees	26,090	4,186
Miscellaneous	23,287	3,084
Utilities and telephone	19,620	19,803
Technical training	-	689
Depreciation	59,071	42,395
Uniform and equipment rental	1,752	-
	<b>345,857</b>	<b>286,037</b>
<b>Operating income</b>	<b>43,027</b>	<b>53,043</b>
<b><u>Non-operating revenues (expenses):</u></b>		
Interest income	299	1,189
Interest expense	(27,353)	(8,016)
	<b>(27,054)</b>	<b>(6,827)</b>
<b>Income (loss) before operating transfers</b>	<b>15,973</b>	<b>46,216</b>
<b><u>Operating transfers in (out):</u></b>		
Transfers in	115,268	75,419
Transfers out	-	(201,985)
	<b>115,268</b>	<b>(126,566)</b>
<b>Net income (loss)</b>	<b>131,241</b>	<b>(80,350)</b>
<b>Retained earnings - beginning</b>	<b>305,875</b>	<b>386,225</b>
<b>Retained earnings - end of year</b>	<b>\$ 437,116</b>	<b>\$ 305,875</b>

*The accompanying notes are an integral part of the financial statements.*



**TOWN OF NEW LLANO, LOUISIANA**  
**STATEMENT OF CASH FLOWS**  
**Proprietary Fund Type**  
For the year ended June 30, 1999  
With Comparative Totals for the Year Ended June 30, 1998

	Enterprise Funds	
	1999	1998
<b><u>Cash flow from operating activities:</u></b>		
Operating income (loss)	\$ 43,027	\$ 53,043
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	59,071	42,395
(Increase) decrease in accounts receivable	(5,451)	12,732
(Decrease) increase in operating accounts payable	5,206	(578)
(Decrease) increase in accrued liabilities	(1,393)	2,738
(Decrease) increase in restricted liabilities	2,233	7,597
<b>Net cash provided (used) by operating activities</b>	<b>102,693</b>	<b>117,927</b>
<b><u>Cash flows from non-capital financing activities:</u></b>		
Operating transfers in (out)	115,268	(126,566)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>115,268</b>	<b>(126,566)</b>
<b><u>Cash flows from capital and related financing activities:</u></b>		
Capital lease proceeds	-	110,448
Interest payments	(25,912)	(8,016)
Principal payments	(38,000)	(40,000)
Acquisition and construction of capital assets	(159,452)	(219,408)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(223,364)</b>	<b>(156,976)</b>
<b><u>Cash flows from investing activities:</u></b>		
Interest and other income	299	1,189
<b>Net cash provided (used) by investing activities</b>	<b>299</b>	<b>1,189</b>
<b>Net increase (decrease) in cash</b>	<b>(5,104)</b>	<b>(164,426)</b>
<b>Beginning cash balance</b>	<b>161,100</b>	<b>325,526</b>
<b>Ending cash balance</b>	<b>155,996</b>	<b>161,100</b>
<b>Restricted cash</b>	<b>115,824</b>	<b>115,428</b>
<b>Cash and cash equivalents</b>	<b>\$ 40,172</b>	<b>\$ 45,672</b>

**Supplemental Disclosure of Cash Flow Information:**

For the year ended June 30, 1999, utility system improvements in the amount of \$442,514 were constructed by the capital projects fund on behalf of the utility fund. Furthermore, equipment costing \$38,540 was acquired by executing a capital lease purchase agreement. During 1998 there were no investing, capital, and financing activities that did not result in cash receipts or payments.

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF NEW LLANO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1999

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Basis of Presentation**

The Town of New Llano (the Town) was incorporated under the provisions of the Lawrason Act and operates under a Mayor-Board of Aldermen form of government. The Town provides various services including public safety (police protection), streets and drainage, sanitation, public improvements, utilities (water and sewerage) and general administrative services.

The accounting and reporting practices of the Town of New Llano, Louisiana, conform to generally accepted accounting principles as applicable to governmental units on a consistent basis between periods.

The following is a summary of the more significant accounting policies.

**Financial Reporting Entity**

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

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Town of New Llano, Louisiana, for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

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

Based upon the above criteria, the Town of New Llano has no component units for the year ended June 30, 1999.

**TOWN OF NEW LLANO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1999

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**Fund Accounting**

The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types and account groups are used by the Town:

**Governmental Funds**

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

**Capital Project Fund** - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds.

**Proprietary Fund**

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

The enterprise funds of the Town account for operations of a combined water and sewer system.

**Account Groups**

**General Fixed Assets Account Group** - This group of accounts is used to account for fixed assets of the Town other than those accounted for in the Proprietary Funds.

**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 and agency 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 the Town and are recognized as revenue at that time.

**TOWN OF NEW LLANO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1999

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Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on long-term debt, which is recognized when due.

In both governmental and proprietary funds, inventories of supplies are considered immaterial and are not recorded.

The proprietary (enterprise) fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Utility revenues are billed on a cycle basis and are recognized in the month billed. Unbilled service receivables resulting from utility services rendered between cycle billing and the end of the month have been recognized in the accompanying financial statements.

The basis of accounting followed by proprietary funds is similar to accounting practices utilized by business enterprises. Due to these similarities, proprietary funds are allowed to follow certain pronouncement that are developed by the Financial Accounting Standards Board (FASB) for business enterprises. However, the Town only applies those FASB pronouncements that were issued on or before November 30, 1989.

**Budgets and Budgetary Practices**

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

1. The Town Clerk prepares a proposed budget for the general fund for the upcoming year and submits it to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of the ensuing year. This budget includes proposed expenditures and the means of financing them.
2. A summary of the proposed budget is published, and the public is notified that the proposed budget is available for public inspection. At the same time, the date of a public hearing is published.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After holding the public hearing and prior to the commencement of the new year, the budget is legally enacted through passage of an ordinance.
5. All budgetary appropriations lapse at the end of each fiscal year.

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

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6. Budgets for the General Fund are 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 Mayor and Board of Aldermen. Such amendments were not material in relation to the original appropriations.

**Cash and Cash Equivalents and Investments**

Cash includes amounts in demand deposits and interest-bearing demand deposits. Cash equivalents include amounts in time deposits. Under state law, the Town may 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.

Under state law, the Town may invest in U.S. bonds, treasury notes or certificates. These are classified as investments if their original maturities exceed 90 days; however, if original maturities are 90 days or less, they are classified as cash equivalents. The Town had no investments at June 30, 1999.

**Due To/From Other Funds**

Amounts in each fund listed as due to/from are offset by corresponding entries in other funds. Funds shown as such are considered available for expenditure unless specifically restricted within the statements. Interfund receivables and payables are not eliminated in the preparation of combined financial statements.

**Fixed Assets and Long-Term Liabilities**

*Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and they 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 including roads, bridges, sidewalks and drainage improvements. No depreciation has been provided on general fixed assets. Fixed assets are valued at historical cost including interest, unless they were donated in which case they are valued at fair market value at the date of donation. At June 30, 1999, there were no material amounts of donated assets.*

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. As of and for the year ended June 30, 1999, there was no activity in the General Long-Term Debt Group.

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

Fixed assets used in the proprietary fund type operations are included on the balance sheet of the fund at historical cost including interest. Depreciation of all exhaustible fixed assets used by proprietary fund is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

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Water Utility	
Water Lines and System	50 years
Fire Hydrants	10 years
Meters	10 years
Equipment	5-7 years
Sewer Utility	
Lines and System	50 years
Trucks	5 years
Equipment	5-20 years

**Contributed Capital**

In the Enterprise Funds, amounts contributed to the Town for acquisition or construction of fixed assets are recorded as contributed capital. Depreciation of these contributed capital assets is computed using the straight-line method over the estimated useful lives of the assets and is charged as a current period expense.

**Reserves**

Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use.

**Statement of Cash Flows**

The Town has adopted Government Auditing Standards Board Statement No. 9 "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." This statement requires entities to report a statement of cash flows as part of a full set of financial statements instead of reporting a statement of changes in financial position. For the purposes of reporting cash flows, cash and cash equivalents includes all cash on hand, cash in bank and certificates of deposit.

**Compensated Absences**

The Town does not accumulate any paid vacation, sick pay, or other employee benefit amounts because employees are not allowed to carry over significant amounts.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**TOWN OF NEW LLANO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1999

**Total Columns on Combined Statements - Overview**

Total columns on the combined statements are captioned "Memorandum Totals" 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 cash flows in conformity with generally accepted accounting principles; nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**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 based on historical information which would indicate the uncollectibility as a percentage of the particular receivable.

**Use of Estimates**

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

**Encumbrance Accounting**

Purchase orders, contracts, and other commitments to engage in future expenditures are referred to as encumbrances. Since encumbrances do not represent liabilities or current expenditures, encumbrances are not reported in the accompanying financial statements.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

At June 30, 1999 cash and cash equivalents totaled \$259,737 (Book Balance) and \$266,084 (Bank Balance). The composition of these accounts is as follows:

	Book Balance	Bank Balance
Demand Deposits – Non Interest Bearing	\$ 251,767	\$ 258,214
Interest Bearing Checking and Certificates of Deposit	7,870	7,870
Petty Cash	100	----
Total Cash	259,737	266,084
Restricted Cash	115,824	117,019
Cash and Cash Equivalents	\$ 143,913	\$149,065

Under state law, these deposits must be secured by Federal Deposit Insurance or the pledge of securities owned by the bank. The securities pledged are held in the name of the pledging bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 1999 all deposits with financial institutions were fully covered by federal deposit insurance and pledged securities. A detailed analysis of this coverage is as follows:

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

---

Total Cash at June 30, 1999 (Bank Balance)	\$ 266,084
Less FDIC Coverage	158,416
Subtotal	107,668
Less Securities Pledged to Town But held in the Name of the Financial Institution (Uncollateralized – GASB Category 3)	676,185
Excess of FDIC Insurance and Pledged Securities	\$ 568,517

---

Even though the pledged securities are considered Uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana law imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Town that the pledging bank has failed to pay deposited funds upon demand.

**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.

For the year ended June 30, 1999, taxes of 4.0 mills totaling \$19,273 were levied on property and were dedicated to general corporate purposes. There were no material amounts of taxes receivable at June 30, 1999.

**NOTE 4 - RECEIVABLES**

The receivables at June 30, 1999, are as follows:

	General Fund	Enterprise Fund	Memorandum Totals
Charges for services	\$ ----	\$ 53,756	\$ 53,756
Other charges	21,843	----	21,843
Total receivables	21,843	53,756	75,599
Less: allowance for uncollectibles	----	(2,657)	(2,657)
Receivables, net of allowance	\$ 21,843	\$ 51,099	\$ 72,942

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables at June 30, 1999 consisted of the following:



**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

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	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 100	\$ ----
Capital Projects Fund	----	143
Sales Tax Fund	----	----
Enterprise Fund	43	----
Totals	\$ 143	\$ 143

---

**NOTE 6 – DUE FROM OTHER GOVERNMENTAL UNITS**

Amounts due from other governmental units at June 30, 1999 consisted of the following:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Memorandum Total</u>
<u>State of Louisiana</u>			
Beer and tobacco taxes	\$ 3,378	\$ ----	\$ 3,378
Video poker tax	73,841	----	73,841
LCDBG	----	98,124	98,124
Total	\$ 77,219	\$ 98,124	\$ 175,343

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**NOTE 7 - GENERAL FIXED ASSETS**

A summary of changes in general fixed assets, at cost, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings and Land	\$ 112,539	\$ ----	\$ ----	\$ 112,539
Improvements Other Than Buildings	658,151	63,400	----	721,551
Equipment	382,946	61,995	3,212	441,729
Totals	\$1,153,636	\$ 125,395	\$ 3,212	\$1,275,819

---

**NOTE 8 - PROPERTY AND EQUIPMENT**

A summary of the property and equipment in the Enterprise Fund at June 30, 1999, consists of the following:

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

Land	\$ 28,835
Building	10,238
Distribution System	2,045,317
Equipment	97,845
Vehicles	33,162
Construction in Progress	515,338
<u>Subtotal</u>	<u>2,730,735</u>
Less Accumulated Depreciation	284,278
<u>Net Property and Equipment</u>	<u>\$ 2,446,457</u>

For the year ended June 30, 1999, depreciation expense totaled \$59,071.

**NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The following is a summary of payables at June 30, 1999:

	General Fund	Capital Projects Fund	Utility Fund	Total
Accounts payable:				
Operating	\$ 22,995	\$ ----	\$ 17,304	\$ 40,299
Construction	----	98,124	----	98,124
<u>Total accounts payable</u>	<u>\$ 22,995</u>	<u>\$ 98,124</u>	<u>\$ 17,304</u>	<u>\$ 138,423</u>
Accrued liabilities:				
Sales taxes payable	\$ ----	\$ ----	\$ 907	\$ 907
Salaries payable	6,751	----	2,429	9,180
Payroll withholdings	5,514	----	875	6,389
Accrued interest	----	----	6,591	6,591
<u>Total accrued liabilities</u>	<u>\$ 12,265</u>	<u>\$ ----</u>	<u>\$ 10,802</u>	<u>\$ 23,067</u>

**NOTE 10 – LONG TERM DEBT**

Long-term debt activity for the year ended June 30, 1999 is summarized as follows:

	Balance 6-30-98	Additions	Payments	Balance 6-30-99
Proprietary Fund				
Revenue bonds	\$ 840,920	\$ ----	\$ 33,920	\$ 807,000
Capital leases	----	38,540	4,080	34,460
<u>Total</u>	<u>\$ 840,920</u>	<u>\$ 38,540</u>	<u>\$ 38,000</u>	<u>\$ 841,460</u>

**Sewer Revenue Bonds**

The Sewer Revenue Bonds constitute special obligations of the Town secured by a lien on and pledge of the net revenues of the utility system.

**TOWN OF NEW LLANO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1999

	Enterprise Fund
<u>Revenue Bonds</u>	
Sewer Revenue Bonds, dated August 30, 1996, due in annual installments ranging from \$33,920 to \$57,000, maturing March 1, 2017, bearing interest at a rate of 2.45%. Revenue generated by the Town's water and sewer system has been pledged to secure these bonds.	\$ 807,000
Total	807,000
Less: current portion of long-term debt	35,000
<u>Net long-term debt</u>	<u>\$ 772,000</u>

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for the years subsequent to June 30, 1999 are as follows:

Year Ending June 30	Total
2000	\$ 35,000
2001	36,000
2002	37,000
2003	38,000
2004	39,000
Thereafter	622,000
<u>Total</u>	<u>\$ 807,000</u>

**Capital Leases**

In December 1998, the Town acquired a loader/backhoe at a cost of \$38,540 under a capital lease. The lease requires sixty monthly payments of \$747 at an annual interest rate of 6.25% beginning December 4, 1998 and maturing November 4, 2003. The future minimum lease payments under the capital lease and the net present value of the future lease payments at June 30, 1999 are as follows:

Year Ending June 30	Total
2000	\$ 8,967
2001	8,967
2002	8,967
2003	8,967
2004	3,736
Total	39,604
Less: amounts representing interest	5,144
<u>Present value of the minimum lease payments</u>	<u>\$ 34,460</u>

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

**NOTE 11 - WATER CONTRACT**

The Town has a contract with the City of Leesville for the purchase of water. The contract has a primary term of seven (7) years commencing April 1, 1994. There are no minimum payments required under the contract except for amounts of actual delivery, with the rates set at ninety cents (\$.90) per one thousand (1,000) gallons for the entire contract period.

**NOTE 12 - RISK MANAGEMENT**

The Town of New Llano is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks of loss are covered by a comprehensive commercial insurance policy and participation in a public entity risk pool that operates as a common insurance program. Claims resulting from these risks have historically not exceeded insurance coverage.

**NOTE 13- BOARD MEMBER SALARIES**

For the year ended June 30, 1999, the amounts of salaries and wages paid to the Mayor and Board of Aldermen were as follows:

<u>Name</u>	<u>Position</u>	<u>Salary</u>
Freddie Boswell	Mayor	\$ 8,700
Carolyn Todd	Alderman	2,700
Bruce Cryer	Alderman	2,900
Bruce Harris	Alderman	2,900
Charles Balthrop	Alderman	2,900
Charlotte Cooper	Alderman	2,700
Totals		\$ 22,800

**NOTE 14- CONTRIBUTED CAPITAL**

Changes in the contributed capital account for the year ended June 30, 1999, are as follows:

	<u>Enterprise Fund</u>
Balance at June 30, 1998	\$ 852,869
Additions	442,515
Balance at June 30, 1999	\$1,295,384

**NOTE 15- PENSION PLAN**

Substantially all employees of the Town of New Llano, Louisiana, are members of the Municipal Employees Retirement Systems of Louisiana. This system is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information relative to the plan follows:

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

*Plan Description.* The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the municipality are members of Plan B.

All permanent employees working at least 35 hours per week who are not covered by another pension plan and are paid wholly or in part from municipal funds and all elected municipal officials are eligible to participate in the System. Under Plan B, employees who retire at or after age 60 with at least 10 years of creditable service at or after age 55 with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final average monthly salary in excess of \$100 for each year of creditable service. Furthermore, employees with at least 10 years of creditable service, but less than 30 years, may take early retirement benefits commencing at or after age 60, with the basic benefit reduced 3 percent for each year retirement precedes age 62, unless he has at least 30 years of creditable service. In any case, monthly retirement benefits paid under Plan B cannot exceed 100 percent of final average salary. 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 above 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.

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 Employees Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (504) 925-4810.

*Funding Policy.* Under Plan B, members are required by state statute to contribute 5.0 percent of their annual covered salary and the Town of New Llano is required to contribute at an actuarially determined rate. The current rate is 2.75 percent of annual covered payroll. Contributions to the System also include one-fourth of one percent (except Orleans and East Baton Rouge parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the Town of New Llano 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.

**NOTE 16 - CAPITAL PROJECTS**

The Town was awarded funding for improvements to its utility system in the form of a Community Development Block Grant. Expenditures related to the project as of June 30, 1999 are summarized as follows:

	<u>Current</u> <u>Expenditures</u>	<u>Previous</u> <u>Expenditures</u>	<u>Total</u>
1996 LCDBG	\$ 436,255	\$ 59,608	\$ 495,863

**TOWN OF NEW LLANO, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 1999

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Local match	6,260	13,215	19,475
Total expenditures	\$ 442,515	\$ 72,823	\$ 515,338

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**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

The Town has been named as a defendant in a lawsuit as of June 30, 1999. The suit is in the initial stage of the legal system. It is not possible to predict at this time the extent of the Town's liability. Losses, if any, are not expected to exceed available insurance coverage.

**NOTE 18 - RESTRICTED EQUITY**

The Town has entered into revenue bond agreements that require funds to be held in restricted bank accounts. Funds on deposit in the restricted bank accounts can be used only under certain circumstances specified by the bond indenture.

The Town has also deposited money in accounts that are designated for refunding customer deposits. Restricted assets and liabilities payable from these assets are summarized as follows:

	Bond Indenture	Meter Deposits	Total
Restricted assets	\$ 50,546	\$ 65,278	\$ 115,824
Liabilities payable from restricted assets	35,000	51,529	86,529
Restricted equity	\$ 15,546	\$ 13,749	\$ 29,295

**TOWN OF NEW LLANO, LOUISIANA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 1999**

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FEDERAL GRANTOR / Pass-through Grantor / Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Pass-through State of Louisiana, Division of Administration Community Development Block Grants	14.228	\$ 436,255

**Note**

The schedule of expenditures of federal awards was prepared in conformity with generally accepted accounting principles for governmental units. See notes to the accompanying financial statements for further details.

**ROZIER, HARRINGTON & MCKAY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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October 26, 1999

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

The Honorable Freddie Boswell, Mayor  
and Members of the Board of Aldermen  
New Llano, Louisiana

We have audited the general purpose financial statements of the Town of New Llano, Louisiana as of and for the year ended June 30, 1999, and have issued our report thereon dated October 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of New Llano, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Town of New Llano, Louisiana, in a separate letter dated October 29, 1999.

Internal Control Over Financial Reporting

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

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October 26, 1999

Page 2

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described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 99-2, 99-3, and 99-4.

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 misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 99-1 to be a material weakness.

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



ROZIER, HARRINGTON & McKAY  
Certified Public Accountants

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October 26, 1999

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133

The Honorable Freddie Boswell, Mayor  
and Members of the Board of Aldermen  
New Llano, Louisiana

**Compliance**

We have audited the compliance of the Town of New Llano, Louisiana with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 1999. The Town of New Llano's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of New Llano's management. Our responsibility is to express an opinion on the Town of New Llano's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of New Llano's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of New Llano's compliance with those requirements.

In our opinion, the Town of New Llano, Louisiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

-Members-

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**Internal Control over Compliance**

The management of the Town of New Llano, Louisiana is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of New Llano's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants what would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ROZIER, HARRINGTON & McKAY  
Certified Public Accountants

**Town of New Llano, Louisiana**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 1999**

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**Part I - Summary of Auditor's Results:**

- The Independent Auditor's Report on the financial statements for the Town of New Llano as of June 30, 1999 and for the year then ended expressed a qualified opinion.
- Reportable conditions were noted in the audit and one of the reportable conditions was considered to be a material weakness.
- The results of the audit disclosed no instances of noncompliance that are considered to be material to the financial statements of the Town of New Llano.
- The Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 expressed an unqualified opinion on compliance for major programs.
- The audit did not disclose any audit findings which are required to be reported under Section 510 of Circular A-133.
- Major programs for the year ended June 30, 1999 are presented as follows:

14.228 Community Development Block Grants/State's Program

- A threshold of \$300,000 was used for distinguishing between Type A and Type B programs for purposes of identifying major programs.
- The Town of New Llano was not considered to be a low risk auditee as defined by the OMB Circular A-133.

**Part II - Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards:**

**99-1, Overtime Compensation (Previously Reported as 98-1):**

The Town has no formal policies and procedures for approving overtime, documenting the purpose for which overtime is needed, or monitoring the amount of overtime actually worked. The following events that occurred during the year ended June 30, 1999 suggest a need for policies and procedures that address overtime compensation:

- Several of the Town's maintenance employees were compensated at one and one-half times their ordinary rate of pay for overtime.
- Management was unable to provide supporting documentation that this overtime was approved, documented, and monitored, nor were any policies and/or procedures available for our review that address overtime compensation.

We recommend establishing a personnel committee to address this issue. The committee should be responsible for performing the following tasks:

- Developing a written policy for approving, documenting, and monitoring overtime.
- Reviewing monthly payroll journals to ensure that compensation conforms to the approved policies.
- Establish written policies for compensating employees that are on-call for emergencies that may occur after hours or on weekends.

**Town of New Llano, Louisiana**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 1999**

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**99-2, Compensation Rates (Previously Reported as 98-2):**

Employee pay rates and the approval of most existing pay rates has not been documented. In order to ensure that employees are compensated fairly, the Town should adopt a systematic approach to adopting pay rates and approve any changes. Furthermore, approval should be documented in a written fashion and signed by the parties responsible for approval.

**99-3, Bank Reconciliations**

During the course of our audit, we noted numerous errors involving the reconciliation of the Town's bank accounts. Since timely and accurate reconciliation of bank accounts is a critical feature of a proper internal control structure, this matter should be addressed immediately.

**99-4, Licenses and Permits**

As part of enforcing the Town's building codes, the Building Inspector issues certain licenses and permits. Concerns identified in connection with the licenses and permits issued by the Building Inspector are identified as follows:

- Some of the source documents used by the Building Inspector consist of prenumbered forms that produce multiple copies; however, management cannot locate a copy of each form included in the numeric sequence.
- Some of the source documents used by the Building Inspector are not prenumbered. The absence of preprinted control numbers restrict management's ability to account for the disposition of forms and collection of the related fees.
- Licenses were issued to the mayor; however, the required fee was not collected in a timely manner. A period of more than seven months elapsed before the fees were eventually collected.
- Licenses were dated January 1, 1999 although the town clerk advises the actual issuance was in March, 1999.

In order to strengthen procedures related to permits and licenses, we suggest implementing the following policies.

- All source documents should consist of preprinted forms that produce multiple copies of the original.
- All payments should be made directly to the Town Clerk or an assistant that is covered by a fidelity bond. Furthermore, the Town Clerk should receive a copy of the source document when payment is received and the Town Clerk should maintain a file that includes a copy of each source document included in the preprinted numeric sequence. If forms are voided for any reason, the voided form should be submitted to the Town Clerk in its entirety and held in the previously mentioned file.
- Before signing any license or permit, the Building Inspector should require a receipt from the Town Clerk or an appropriate assistant acknowledging that the fee has been paid in full. This policy should be observed without exception.

**Part III - Findings and Questioned Costs for Federal Awards Which Shall Include Audit Findings as Defined by OMB Circular A-133:**

- None.

**Town of New Llano, Louisiana**  
**Schedule of Prior Year Findings**  
**For the Year Ended June 30, 1999**

<b>SECTION I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
98-1 Overtime Compensation - The Town has no formal policies and procedures for approving overtime, documenting the purpose for which overtime is needed or monitoring the amount of overtime actually worked.	Unresolved (See 99-1) - The overtime paid to Town employees has declined substantially during the current fiscal year; however, the Town has not developed any policies to address this issue, nor were Town officials able to produce documentation that overtime paid in the current fiscal year was approved and/or monitored.
98-2 Compensation Rates - Employee pay rates and the approval of most existing pay rates has not been documented.	Unresolved (See 99-2) - There is no documentation in employee files that details pay rates or management's consideration of and approval of pay. Furthermore, this approval should be in written form and signed by the employees responsible for approval.
98-3 (1997 Comment) Fixed Asset Inventory In order to maintain control of fixed assets and to serve as documentation for insurance purposes, we recommend that an inventory of fixed assets be completed by each department.	Resolved - The Town has completed a fixed asset inventory and has developed a tracking system for its fixed assets.
<b>SECTION II - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b>	
Finding - N/A - There were no findings in this area during the year ended June 30, 1998.	Response - N/A
<b>SECTION III - MANAGEMENT LETTER</b>	
98-4 Christmas Bonuses - The Town awarded bonuses in the amount of \$100 per employee. Such practice is prohibited by LSA-RS 14:138.	Resolved - The Town has discontinued this practice.
98-5 Retirement Withholding - Improper configuration of payroll system resulted in under withholding of employees' portion of retirement contributions.	Resolved - The Town has reconfigured the system and is now withholding the proper amounts.
98-6 Related Party Transactions - Certain public officials that failed to pay utility bill and occupational licenses fees were allowed to avoid	Resolved - Enforcement of policies regarding the assessment of penalties and late charges has been consistently enforced.

**Town of New Llano, Louisiana**  
**Schedule of Prior Year Findings**  
**For the Year Ended June 30, 1999**

<p>late payment penalties. Since failing to consistently enforce policies could be interpreted as unethical behavior, we recommend that future enforcement be conducted in a timely manner.</p>	
<p>98-7 Health Insurance Benefits - The Town has been paying the entire premium for health insurance coverage provided to dependents of municipal employees. The existing policy did not clarify the Council's position with regard to amounts paid by the employees and amounts paid by the Town.</p>	<p>Resolved - The Council clarified this confusion by approving the payment of health insurance coverage for dependents of municipal employees.</p>
<p>98-8 Sales Tax Collections - Effective July 1, 1997, sales tax on utilities dropped from four percent to three percent. We noted that the Town was collecting sales tax from customers at a rate of three percent, but was still remitting sales taxes at a rate of four percent.</p>	<p>Resolved - The Town filed the necessary amended returns for the prior year and is now calculating and remitting sales taxes in the proper amounts.</p>
<p>98-9 Hiring Practices - It has come to our attention that certain new employees were allowed to begin work prior to being officially approved by the Mayor.</p>	<p>Resolved - The proper documentation is now being obtained and completed before work is officially begun; however, documentation of pay rates is still not being done. See Finding 99-2.</p>
<p>98-10 Accounting Practices - Numerous adjustments were needed in order to properly classify transactions reported on the Town's books.</p>	<p>Unresolved (See 99-5) - Numerous adjustments continued to be necessary in order to properly classify transactions reported on the Town's books.</p>
<p>98-11 Investment of Idle Funds - At year end, in excess of \$300,000 was deposited in non-interest bearing accounts. In order to maximize the Town's resources, any funds that are not required to meet immediate needs should be invested in appropriate short-term investments and request that its fiscal agent pay interest on demand deposits.</p>	<p>Unresolved (See 99-6) - A June 30, 1999, approximately \$250,000 was held in bank accounts that do not pay interest.</p>

**Town of New Llano, Louisiana  
Management's Corrective Action Plan  
For the Year Ended June 30, 1999**

<b>SECTION I – INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
<p>99-1 Overtime Compensation - The Town has no formal policies and procedures for approving overtime, documenting the purpose for which overtime is needed or monitoring the amount of overtime actually worked.</p>	<p>Response - The Town will develop a policy for approving, documenting and monitoring overtime. In addition, monthly payroll journals will be reviewed to ensure that compensation conforms to policy.</p>
<p>99-2 Compensation Rates – Employee pay rates and the approval of most existing pay rates has not been documented.</p>	<p>Response - In the future, the mayor and the board of aldermen will periodically review pay rates and approve any changes. Furthermore, approval will be documented and maintained in each employees' file by use of an employee information form developed by the Town Clerk.</p>
<p>99-3 Bank Reconciliations – During the course of our audit, we noted numerous errors involving the reconciliation of the Town's bank accounts.</p>	<p>Response - The Town realizes the importance of properly preparing monthly bank reconciliations and will take the steps necessary to ensure its bank reconciliations are completed in an accurate and timely manner.</p>
<p>99-4 Permits and Licenses – As part of enforcing the Town's building codes, the Building Inspector issues certain licenses and permits. Concerns identified in connection with the licenses and permits issued by the Building Inspector are identified as follows:</p> <ul style="list-style-type: none"> <li>• Some of the source documents used by the Building Inspector consist of prenumbered forms that produce multiple copies; however, management cannot locate a copy of each form included in the numeric sequence.</li> <li>• Some of the source documents used by the Building Inspector are not prenumbered. The absence of preprinted control numbers restrict management's ability to account for the disposition of forms and collection of the related fees.</li> <li>• Licenses were issued to the mayor; however, the required fee was not collected in a timely manner. A period of more than seven months elapsed before the fees were eventually collected.</li> </ul>	<p>Response – Management will take steps to ensure that all licenses and permits were properly completed before they are issued, and will maintain the Town's copy of the permits in a separate file. Collections of the required fees will be centralized at Town Hall, and no licenses or permits shall be issued until the required fees have been paid in full. The Town is also implementing a computerized licensing program to provide additional controls over the licensing process.</p>



**Town of New Llano, Louisiana  
Management's Corrective Action Plan  
For the Year Ended June 30, 1999**

<ul style="list-style-type: none"> <li>Licenses were dated January 1, 1999 although the town clerk advises the actual issuance was in March, 1999.</li> </ul>	
<p><b>SECTION II – INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b></p>	
<p>Finding – N/A – There were no findings in this area.</p>	<p>Response - N/A</p>
<p><b>SECTION III – MANAGEMENT LETTER</b></p>	
<p>99-5 Accounting Practices – Numerous adjustments were needed in order to properly classify transactions reported on the Town's books.</p>	<p>Response – The staff will take steps to become familiar with the proper classification of routine transactions.</p>
<p>99-6 Investment of Idle Funds - At year end, excess funds were deposited in non-interest bearing accounts. In order to maximize the Town's resources, any funds that are not required to meet immediate needs should be invested in appropriate short-term investments. The Town should also request that its fiscal agent pay interest on demand deposits.</p>	<p>Response - The Town will deposit all excess funds in Interest-bearing accounts in the future. During the audit, several certificates of deposit were opened with its fiscal agent to maximize its resources.</p>
<p>99-7 Bond Covenants – The Town is subject to a sewer revenue bond agreement that requires monthly deposit of funds into certain restricted bank accounts. During the twelve month period ending June 30, 1999, only eight of the required monthly deposits were actually completed.</p>	<p>Response – The Town Clerk has been made aware of the deposit requirements and will ensure that the required payments are made in accordance with the schedules contained in the bond agreement.</p>
<p>99-8 Related Party Transactions - As discussed in reportable condition 99-4, during the course of our audit, it was discovered that licenses were issued to a public official; however, a period of more than seven months elapsed before the required fees were collected. The Office of Legislative Auditor has advised us that this transaction may violate provisions of the Louisiana Constitution of 1974.</p>	<p>Response – The Town will address written procedures to employees and elected officials to assert the necessity for compliance with all standard practices in dealings involving the Town and employees or officials. Furthermore, no exceptions to these procedures will be allowed until legal counsel has reviewed the exceptions for compliance with applicable laws and regulations.</p>

**ROZIER, HARRINGTON & McKAY**  
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October 26, 1999

The Honorable Mayor and  
Board of Aldermen  
Town of New Llano, Louisiana

In planning and performing our audit of the financial statements of the Town of New Llano, Louisiana for the year ended June 30, 1999, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and suggestions regarding those matters are provided as follows:

**REPORTABLE CONDITIONS**

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. As required by *Government Auditing Standards*, the reportable conditions are also summarized in the schedule of findings and questioned cost appearing the Town's audit report.

**99-1, OVERTIME COMPENSATION:**

The Town has no formal policies and procedures for approving overtime, documenting the purpose for which overtime is needed, or monitoring the amount of overtime actually worked. The following events that occurred during the year ended June 30, 1999 suggest a need for policies and procedures that address overtime compensation:

- Several of the Town's maintenance employees were compensated at one and one-half times their ordinary rate of pay for overtime.
- Management was unable to provide supporting documentation that this overtime was approved, documented, and monitored, nor were any policies or procedures available for our review that address overtime compensation.

We recommend establishing a personnel committee to address this issue. The committee should be responsible for performing the following tasks:

-Members-

American Institute of Certified Public Accountants • Society of Louisiana CPAs

- Developing a written policy for approving, documenting, and monitoring overtime.
- Reviewing monthly payroll journals to ensure that compensation conforms to the approved policies.
- Establish written policies for compensating employees that are on-call for emergencies that may occur after hours or on weekends.

**99-2, COMPENSATION RATES:**

Employee pay rates and the approval of most existing pay rates has not been documented. In order to ensure that employees are compensated fairly, the Town should adopt a systematic approach to adopting pay rates and approving any changes. Furthermore, approval should be documented in a written fashion and signed by the parties responsible for approval.

**99-3, BANK RECONCILIATIONS:**

During the course of our audit, we noted numerous errors involving the reconciliation of the Town's bank accounts. Since timely and accurate reconciliation of bank accounts is a critical feature of a proper internal control structure, this matter should be addressed immediately.

**99-4, PERMITS AND LICENSES:**

As part of enforcing the Town's building codes, the Building Inspector issues certain licenses and permits. Concerns identified in connection with the licenses and permits issued by the Building Inspector are identified as follows:

- Some of the source documents used by the Building Inspector consist of prenumbered forms that produce multiple copies; however, management cannot locate a copy of each form included in the numeric sequence.
- Some of the source documents used by the Building Inspector are not prenumbered. The absence of preprinted control numbers restrict management's ability to account for the disposition of forms and collection of the related fees.
- Licenses were issued to the mayor; however, the required fee was not collected in a timely manner. A period of more than seven months elapsed before the fees were eventually collected.
- Licenses were dated January 1, 1999 although the town clerk advises the actual issuance was in March, 1999.

In order to strengthen procedures related to permits and licenses, we suggest implementing the following policies.

- All source documents should consist of preprinted forms that produce multiple copies of the original.
- All payments should be made directly to the Town Clerk or an assistant that is covered by a fidelity bond. Furthermore, the Town Clerk should receive a copy of the source document when payment is received and the Town Clerk should maintain a file that includes a copy of each source document included in the preprinted numeric sequence. If forms are voided for any reason, the voided form should be submitted to the Town Clerk in its entirety and held in the previously mentioned file.

- Before signing any license or permit, the Building Inspector should require a receipt from the Town Clerk or an appropriate assistant acknowledging that the fee has been paid in full. This policy should be observed without exception.

### **ADDITIONAL COMMENTS**

These additional comments address further opportunities for strengthening internal controls and operating efficiency. *Government Auditing Standards* do not require these additional comments to be included in the City's audit report; however, the comments are of sufficient importance to be worthy of management's attention.

#### **99-5, ACCOUNTING PRACTICES:**

For the year ended June 30, 1999, numerous adjustments were needed in order to properly classify transactions reported on the Town's books. In order to avoid future problems of this nature, the staff should become familiar with the proper classification for routine transactions. Our staff will be available as needed to assist with this matter.

#### **99-6, INVESTMENT OF IDLE FUNDS:**

At year end, excess funds were deposited in non-interest bearing accounts. In order to maximize the Town's resources, any funds that are not required to meet the Town's immediate needs should be invested in appropriate short-term instruments. The Town should also request that its fiscal agent convert its demand deposit accounts to interest bearing accounts, particularly on those accounts with significant amounts on deposit.

#### **99-7, BOND COVENANTS:**

The Town is subject to a sewer revenue bond agreement that requires monthly deposit of funds into certain restricted bank accounts. During the twelve month period ending June 30, 1999, only eight of the required monthly deposits were actually completed. In order to comply with the terms of the bond agreement, funds should be immediately deposited into the following accounts:

- Sewer Revenue Bond Debt Service Reserve Fund
- Sewer System Renewal and Replacement Fund

In addition, policies and procedures should be implemented to ensure that all future required monthly deposits are made in a timely manner.

#### **99-8, RELATED PARTY TRANSACTIONS:**

As discussed in reportable condition 99-4, during the course of our audit, it was discovered that licenses were issued to a public official; however, a period of more than seven months elapsed before the required fees were collected. Since payment is ordinarily required when licenses are issued, this matter was discussed with personnel involved in processing the transaction. Based on their responses, we were unable to reach any definitive conclusions regarding the facts and circumstances that allowed the transaction to be processed in an unusual manner.

As required by the terms of our engagement letter, this matter has been reported to the Office of Legislative Auditor. The Office of Legislative Auditor has advised us that this transaction may violate provisions of the Louisiana Constitution of 1974. Article 7, Section 14 of the Constitution which reads as follows:

*Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.*

Since we were unable to reach any conclusion regarding the facts and circumstances related to this matter, it is not known whether the Constitutional provisions described above were intentionally violated. In order to avoid future issues of this nature, we suggest devoting special attention to all transactions involving related parties. Policies and procedures should be rigorously enforced, without exception, when a transaction involves related parties.

We will be available at your convenience to discuss our comments and suggestions in greater detail. Our firm will also be available to assist in implementing these recommendations.



ROZIER, HARRINGTON & MCKAY,  
Certified Public Accountants