

RECEIVED
LEGISLATIVE AUDITOR
1999 DEC 30 AM 11:29

OFFICIAL
FILE COPY

DO NOT SEND OUT

(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

CITY OF PINEVILLE, LOUISIANA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 1999

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

Release Date 2-2-00

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3-4
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Balance Sheet	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types.....	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balance -Budget (GAAP Basis) and Actual – General and Special Revenue Funds	7
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Types.....	8
Combined Statement of Cash Flows - Proprietary Fund Types	9
Notes To Financial Statements	10-26
SUPPLEMENTAL FINANCIAL INFORMATION	
General Fund - Schedule of Expenditures by Department.....	27
Special Revenue Funds – Combining Balance Sheet	28
Special Revenue Funds – Combining Statement of Revenues and Expenditures.....	29
Debt Service Funds – Combining Balance Sheet.....	30
Debt Service Funds – Combining Statement of Revenues and Expenditures	31
Capital Project Funds – Combining Balance Sheet.....	32
Capital Project Funds – Combining Statement of Revenues and Expenditures	33
Enterprise Funds - Combining Balance Sheet.....	34
Enterprise Funds - Combining Statement of Revenues and Expenses	35
Utility System – Statement of Expenses by Department.....	36
Schedule of Per Diem Paid to Board Members	37
SCHEDULE OF EXPENDITUES OF FEDERAL AWARDS.....	38
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDIANCE WITH OMB CIRCULAR A-133.....	39-40
SCHEDULE OF FINDINGS AND QUESTIONED COST	41-43
MANAGEMENTS CORRECTIVE ACTION PLAN.....	44-46
SUMMARY OF PRIOR YEAR FINDINGS AND QUESTINED COST.....	47-50

ROZIER, HARRINGTON & MCKAY

CERTIFIED PUBLIC ACCOUNTANTS

1407 PETERMAN DRIVE
ALEXANDRIA, LOUISIANA 71301

JOHN S. ROZIER, IV, C.P.A.
M. DALE HARRINGTON, C.P.A.
MARK S. MCKAY, C.P.A.
LEE W. WILLIS, C.P.A.
LAWRENCE E. MAYEAUX, C.P.A.

MAILING ADDRESS
POST OFFICE BOX 12178
ALEXANDRIA, LOUISIANA 71315-2178
TELEPHONE (318) 442-1608
TELECOPIER (318) 487-2027

December 17, 1999

Independent Auditors' Report

To the Honorable Mayor and Board of Aldermen
City of Pineville, Louisiana

We have audited the accompanying general purpose financial statements of the City of Pineville, 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 City'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 City of Pineville, Louisiana, as of June 30, 1999, and the results of its operations and 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 a report dated December 17, 1999, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

-Members-
American Institute of Certified Public Accountants • Society of Louisiana, CPAs

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the Table of Contents and the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Pineville. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

ROZIER, HARRINGTON & McKAY
CERTIFIED PUBLIC ACCOUNTANTS

1407 PETERMAN DRIVE
ALEXANDRIA, LOUISIANA 71301

JOHN S. ROZIER, IV, C.P.A.
M. DALE HARRINGTON, C.P.A.
MARK S. MCKAY, C.P.A.
LEE W. WILLIS, C.P.A.
LAWRENCE E. MAYEAUX, C.P.A.

MAILING ADDRESS
POST OFFICE BOX 12178
ALEXANDRIA, LOUISIANA 71315-2178
TELEPHONE (318) 442-1608
TELECOPIER (318) 487-2027

December 17, 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

To the Honorable Mayor
and the Board of Aldermen
City of Pineville, Louisiana

We have audited the financial statements of the City of Pineville, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 17, 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 City of Pineville'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 99-3. We also note certain immaterial instances of noncompliance that we have reported to management in a separate letter dated December 17, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pineville'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 City's ability to record, process, summarize and report financial data consistent with the assertions of management in

the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-1 and 99-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 17, 1999.

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

CITY OF PINEVILLE

All Fund Types and Account Groups

Combined Balance Sheet

June 30, 1999

	Governmental Funds			Proprietary Funds		Fiduciary Funds	Account Group			Total (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Agency Funds	General	Long-term		Debt
								Fixed Assets	Debt		
Cash	\$ 305,162	\$ 492,702	\$ 713,321	\$ 585,035	\$ 355,900	\$ 14,797	\$ 51,648	\$ -	\$ -	\$ -	\$ 2,518,565
Receivables (net)	390,553	209,024	-	13,396	563,203	-	-	-	-	-	1,176,176
Interfund receivable	599,541	2,605	-	466,619	158,614	-	38,293	-	-	-	1,265,672
Other assets	3,014	-	-	-	2,699	-	-	-	-	-	5,713
Restricted cash	-	-	-	-	441,338	-	-	-	-	-	441,338
Land, buildings and equipment (net of accumulated depreciation)	-	-	-	-	16,362,411	-	-	-	5,826,862	-	22,189,273
Amount available in debt service funds	-	-	-	-	-	-	-	-	654,537	-	654,537
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	3,106,937	-	3,106,937
Total assets	\$ 1,298,270	\$ 704,331	\$ 713,321	\$ 1,065,050	\$ 17,884,165	\$ 14,797	\$ 89,941	\$ 5,826,862	\$ 3,761,474	\$ -	\$ 31,358,211

LIABILITIES AND EQUITY

Accounts and other payables	\$ 388,157	\$ 18,875	\$ -	\$ 149,213	\$ 107,140	\$ -	\$ 89,941	\$ -	\$ -	\$ -	\$ 753,326
Interfund payables	317,096	209,047	58,784	164,641	516,104	-	-	-	-	-	1,265,672
Deposits due others	-	-	-	-	255,124	-	-	-	-	-	255,124
Accrued interest	-	-	-	-	19,036	-	-	-	-	-	19,036
Employee healthcare claims payable	-	-	-	-	-	266,554	-	-	-	-	266,554
Short-term notes payable	62,172	-	-	-	-	-	-	-	-	-	62,172
Certificates of indebtedness	-	-	-	-	-	-	-	-	2,093,000	-	2,093,000
Revenue bonds payable	-	-	-	-	1,800,000	-	-	-	315,000	-	2,115,000
General obligation bonds payable	-	-	-	-	-	-	-	-	1,265,000	-	1,265,000
Capital lease obligations	-	-	-	-	-	-	-	-	88,474	-	88,474
Total liabilities	767,425	227,922	58,784	313,854	2,697,404	266,554	89,941	-	3,761,474	-	8,183,358

EQUITY:

Investment in general fixed assets	-	-	-	-	-	-	-	5,826,862	-	-	5,826,862
Contributed capital	-	-	-	-	15,187,397	-	-	-	-	-	15,187,397
Retained Earnings:	-	-	-	-	422,302	-	-	-	-	-	422,302
Reserved by bond covenants	-	-	-	-	(422,938)	(251,757)	-	-	-	-	(674,695)
Unreserved	-	-	-	-	-	-	-	-	-	-	2,412,987
Fund Balances	530,845	476,409	654,537	751,196	-	-	-	-	-	-	23,174,853
Total equity	530,845	476,409	654,537	751,196	15,186,761	(251,757)	-	5,826,862	-	-	23,174,853
Total liabilities and equity	\$ 1,298,270	\$ 704,331	\$ 713,321	\$ 1,065,050	\$ 17,884,165	\$ 14,797	\$ 89,941	\$ 5,826,862	\$ 3,761,474	\$ -	\$ 31,358,211

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

Governmental Funds

Combined Statement of Revenues, Expenditures and Changes in Fund Balances For the Year Ended June 30, 1999

	Governmental Funds				Total (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
REVENUES:					
Taxes:					
Ad valorem	\$ 270,127	\$ 474,783	\$ 183,137	\$ -	\$ 928,047
Sales	3,083,727	2,288,341	-	-	5,372,068
Licenses and permits					
Franchise fees	514,020	-	-	-	514,020
Occupational licenses	358,105	-	-	-	358,105
Other	35,488	-	-	-	35,488
Intergovernmental	322,276	54,000	-	1,000,294	1,376,570
Sanitation fees	535,110	-	-	-	535,110
Fines and forfeitures	124,302	-	-	-	124,302
Other	198,396	26,682	28,611	28,743	282,432
Total revenues	5,441,551	2,843,806	211,748	1,029,037	9,526,142
EXPENDITURES:					
Current:					
General government:					
Judicial	208,529	-	-	-	208,529
Executive	143,642	-	-	-	143,642
Finance & Administrative	1,291,365	6,818	4,893	-	1,303,076
Public safety	2,642,077	-	-	-	2,642,077
Public works	2,137,302	-	-	-	2,137,302
Health & Welfare	105,000	-	-	-	105,000
Culture & Recreation	386,845	22,790	-	-	409,635
Capital Expenditures	94,370	25,719	-	1,492,841	1,612,930
Debt Service	151,351	-	713,146	-	864,497
Total expenditures	7,160,481	55,327	718,039	1,492,841	9,426,688
Excess (deficiency) of revenues over expenditures	(1,718,930)	2,788,479	(506,291)	(463,804)	99,454
OTHER FINANCING SOURCES (USES):					
Operating transfers in	2,009,685	-	473,126	1,183,240	3,666,051
Operating transfers out	(266,554)	(2,784,034)	-	(207,553)	(3,258,141)
Proceeds from long-term debt	19,800	-	-	-	19,800
Excess (deficiency) of revenues and other sources over expenditures and other uses	44,001	4,445	(33,165)	511,883	527,164
Fund balance (deficit) - beginning of year	486,844	471,964	687,702	239,313	1,885,823
Fund balance (deficit) - end of year	\$ 530,845	\$ 476,409	\$ 654,537	\$ 751,196	\$ 2,412,987

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

General and Special Revenue Funds

Combined Statement of Revenues, Expenditures and Changes in Fund Balance Budget (GAAP Basis) and Actual For the Year Ended June 30, 1999

	General Fund			Special Revenue Funds		
	Amended Budget	Actual	Variance Favorable (Unfavorable)	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes:						
Ad valorem	\$ 275,000	\$ 270,127	\$ (4,873)	\$ 539,000	\$ 474,783	\$ (64,217)
Sales	3,025,000	3,083,727	58,727	2,317,400	2,288,341	(29,059)
Licenses and permits						
Franchise fees	520,000	514,020	(5,980)	-	-	-
Occupational licenses	300,000	358,105	58,105	-	-	-
Other	30,000	35,488	5,488	-	-	-
Intergovernmental	296,500	322,276	25,776	112,700	54,000	(58,700)
Sanitation fees	495,000	535,110	40,110	-	-	-
Fines and forfeitures	118,200	124,302	6,102	-	-	-
Other	163,800	198,396	34,596	25,500	26,682	1,182
Total revenues	5,223,500	5,441,551	218,051	2,994,600	2,843,806	(150,794)
EXPENDITURES:						
Current:						
General government	1,512,000	1,643,536	(131,536)	10,700	6,818	3,882
Public safety	2,599,000	2,642,077	(43,077)	-	-	-
Public works	2,102,100	2,137,302	(35,202)	-	-	-
Health & Welfare	104,700	105,000	(300)	-	-	-
Culture & Recreation	343,700	386,845	(43,145)	9,400	22,790	(13,390)
Capital Expenditure	-	94,370	(94,370)	6,800	25,719	(18,919)
Debt Service	-	151,351	(151,351)	-	-	-
Total expenditures	6,661,500	7,160,481	(498,981)	26,900	55,327	(28,427)
Excess (deficiency) of revenues over expenditures	(1,438,000)	(1,718,930)	(280,930)	2,967,700	2,788,479	(179,221)
OTHER FINANCING SOURCES (USES):						
Operating transfers in	1,994,700	2,009,685	14,985	-	-	-
Operating transfers out	(436,700)	(266,554)	170,146	(2,803,400)	(2,784,034)	19,366
Proceeds from long-term debt	-	19,800	19,800	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	120,000	44,001	(75,999)	164,300	4,445	(159,855)
Fund balance (deficit) - beginning of year	486,844	486,844	-	486,844	471,964	(14,880)
Fund balance (deficit) - end of year	\$ 606,844	\$ 530,845	\$ (75,999)	\$ 651,144	\$ 476,409	\$ (174,735)

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

Proprietary Funds

Combined Statement of Revenue, Expenses and Changes in Retained Earnings

For the Year Ended June 30, 1999

	Enterprise Funds	Internal Service Fund	Total (Memorandum Only)
<u>OPERATING REVENUES:</u>			
Utility revenue	\$ 2,196,988	\$ -	\$ 2,196,988
Contributions to Healthcare Plan	-	484,634	484,634
Other	139,837	-	139,837
Total operating revenues	2,336,825	484,634	2,821,459
<u>OPERATING EXPENSES:</u>			
Salaries	702,677	-	702,677
Contract labor	18,806	-	18,806
Legal and professional	88,721	-	88,721
Repairs and maintenance	140,980	-	140,980
Supplies and chemicals	118,080	-	118,080
Employee benefits	235,106	575,665	810,771
Insurance	-	114,968	114,968
Utilities	333,108	-	333,108
Permits and testing	34,421	-	34,421
Depreciation	459,322	-	459,322
Other	114,740	46,745	161,485
Total operating expenses	2,245,961	737,378	2,983,339
Operating income (loss)	90,864	(252,744)	(161,880)
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest revenue	40,646	987	41,633
Interest expense	(119,070)	-	(119,070)
Net income (loss) before operating transfers	12,440	(251,757)	(239,317)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in	36,000	-	36,000
Operating transfers out	(443,911)	-	(443,911)
Net income (loss)	(395,471)	(251,757)	(647,228)
Retained earnings - beginning of year:	394,835	-	-
Retained earnings - end of year	\$ (636)	\$ (251,757)	\$ (647,228)

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

Proprietary Funds

Combined Statement of Cash Flows For the Year Ended June 30, 1999

	Enterprise Funds	Internal Service Fund	Total (Memorandum Only)
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating income	\$ 90,864	\$ (252,744)	\$ (161,880)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	459,322	-	459,322
(Increase) decrease in receivable	(158,878)	-	(158,878)
(Increase) decrease in other assets	1,046	-	1,046
Increase (decrease) in accounts and other payables	38,523	-	38,523
Increase (decrease) in healthcare claims payable	-	266,554	266,554
Increase (decrease) in deposits due others	14,590	-	14,590
Net cash provided (used) by operating activities	<u>445,467</u>	<u>13,810</u>	<u>459,277</u>
<u>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:</u>			
Operating transfers in	36,000	-	36,000
Operating transfers out	(443,911)	-	(443,911)
Net (increase) decrease in interfund receivables	61,567	-	61,567
Net (increase) decrease in interfund payables	281,984	-	281,984
Net cash provided (used) by non-capital financing activities	<u>(64,360)</u>	<u>-</u>	<u>(64,360)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Interest paid on revenue bonds	(120,007)	-	(120,007)
Capital expenditures	(55,000)	-	(55,000)
Principal paid on revenue bonds	(277,321)	-	(277,321)
Net cash provided (used) by capital and related financing activities	<u>(452,328)</u>	<u>-</u>	<u>(452,328)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Interest income	40,646	987	41,633
Net cash provided (used) by capital and related financing activities	<u>40,646</u>	<u>987</u>	<u>41,633</u>
Net increase (decrease) in cash	(30,575)	14,797	(15,778)
Beginning cash balance	827,813	-	827,813
Ending cash balance	797,238	14,797	812,035
Restricted cash balance	441,338	-	441,338
Unrestricted cash balance	<u>\$ 355,900</u>	<u>\$ 14,797</u>	<u>\$ 370,697</u>

Supplemental Disclosure of Cash Flow Information:

During the year, various capital project funds expended resources for the improvement of the utility system and the municipal airport. Expenditures for utility and airport projects totaled \$952,257 and \$96,865, respectively. Furthermore, utility system improvements with an estimated cost of \$199,000 were constructed by subdivision developers and donated to the City.

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pineville (the City) was incorporated under the provisions of the Lawrason Act. The City is governed by a Mayor and a Board of Alderman consisting of five (5) members. Services provided by the City include police protection, fire protection, street maintenance, drainage, recreation and sanitation. The City also operates a water distribution system, a sewer system and a municipal airport.

The accompanying policies conform to generally accepted accounting principles for governmental units.

Financial Reporting Entity

As the municipal governing authority, for reporting purposes, the City is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the City), (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 City of Pineville 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 City 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 City.
2. Organizations for which the City does not appoint a voting majority but are fiscally dependent on the City.
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 on the criteria presented above, the City has no component units. In reaching this conclusion, the operations of the City Court System were considered; however it was determined that the City Court System did not meet the necessary criteria for classification as a component unit. Component

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

unit status does not apply because the City Court System is managed by elected officials and it functions in a fiscally independent manner.

Fund Accounting

The accounts of the City 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. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

Governmental Fund Type

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

Special Revenue Funds - Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Account for transactions relating to resources retained and used for the payment of principal and interest on general long-term obligations.

Capital Project Funds - Account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations 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.

Internal Service Funds - Account for the goods and services provided to other funds on a cost reimbursement basis.

Fiduciary Funds

Agency Funds - Account for assets that are held on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group - This group of accounts is used to account for fixed assets of the City other than those accounted for in the proprietary fund.

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

General Long-Term Debt Account Group - This group of accounts is used to account for long-term debt of the City not accounted for in the proprietary fund.

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 expendable trust 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 and gross receipts are considered "measurable" when in the hands of collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

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 funds are 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 City only applies those FASB pronouncements that were issued on or before November 30, 1989.

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.

Restricted Assets:

Restricted assets represent resources that must be expended in a specific manner. Restrictions of this nature are imposed by various contractual obligations including grant agreements and bond covenants.

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

Budget Practices:

Budgets including any amendments are prepared in the manner prescribed by Louisiana revised statutes. City budgets present revenue and expenditures on a basis which is consistent with generally accepted accounting principles. Budgets are adopted annually for the general fund and each special revenue fund. The remaining funds are not required to adopt budgets.

Fixed Assets:

Fixed assets of governmental funds are recorded as expenditures at the time purchased or constructed, and the related assets are reported in the general fixed assets account group. Since the City does not capitalize infrastructures, these items are excluded from the general fixed assets account group. No depreciation has been provided on general fixed assets. General fixed assets are reported at historical cost, including any interest incurred during construction.

Property and equipment used in the proprietary fund operations are recorded at cost or estimated historical cost including interest incurred during construction. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Fixed assets are reported at historical cost, including any interest incurred during construction.

Cash And Cash Equivalents:

Amounts reported as cash and cash equivalents (restricted and unrestricted) include all cash on hand, cash in bank accounts, certificates of deposit and highly liquid investments.

Compensated Absences:

Personnel policy adopted by the City does not allow employees to carryover material amounts of vested leave. As a result, no provision for compensated absences is included in the accompanying financial statements.

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.

Interfund Receivables And Payables:

Interfund receivables and payables occur when transactions between individual funds are executed. These balances are typically liquidated within one year of origination. The interfund receivables and payables are not eliminated in the preparation of combined financial statements.

Total Columns On Combined Statements:

Total columns on the combined statements are captioned "Memorandum" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Statement Of Cash Flows:

For the purpose of reporting cash flows, cash and cash equivalents includes all cash on hand, cash in banks and certificates of deposit.

Fund Equity:

Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds when such resources are restricted for the acquisition or construction of capital assets. Contributed capital reported by the City is not subject to amortization.

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable for the year ended June 30, 1999 are summarized as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Enterprise Funds</u>
<u>Accounts Receivable</u>				
Utility Accounts	\$ ----	\$ ----	\$ ----	\$ 593,767
Franchise Taxes	50,417	----	----	----
Other	3,360	----	3,773	----
<u>Total Accounts Receivable</u>	<u>53,777</u>	<u>----</u>	<u>3,773</u>	<u>593,767</u>
<u>Due From Other Governmental Units</u>				
Sales Taxes	273,503	209,024	----	----
Tobacco Tax	14,935	----	----	----
Other	48,338	----	9,623	----
<u>Total Due From Other Governments</u>	<u>336,776</u>	<u>209,024</u>	<u>9,623</u>	<u>----</u>
<u>Total Receivables</u>	<u>390,553</u>	<u>209,024</u>	<u>13,396</u>	<u>593,767</u>
<u>Allowance for Doubtful Accounts</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>(30,564)</u>
<u>Net Receivables</u>	<u>\$ 390,553</u>	<u>\$ 209,024</u>	<u>\$ 13,396</u>	<u>\$ 563,203</u>

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

NOTE 3 - CASH AND CASH EQUIVALENTS

Deposits are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 1999, the City has \$2,976,119 in deposits (collected bank balance). These deposits are secured from risk by \$250,048 of federal deposit insurance and \$3,962,131 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement No. 3, State law imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 4 - LONG-TERM DEBT

Debt attributable to the acquisition of the City's utility system and the operation of the utility system is reported as an obligation of the City's proprietary (enterprise) funds. Remaining debts are reported in the general long-term debt account group. The City's debts are summarized as follows:

	<u>Proprietary Fund Obligations</u>	<u>General Long-term Debt</u>	<u>Total</u>
Certificates of Indebtedness	\$ ----	\$ 2,093,000	\$ 2,093,000
Revenue Bonds	1,800,000	315,000	2,115,000
General Obligation Bonds	----	1,265,000	1,265,000
Capital Leases	----	88,474	88,474
<u>Total</u>	<u>\$ 1,800,000</u>	<u>\$ 3,761,474</u>	<u>\$ 5,561,474</u>

Changes in the City's general long-term debt for the year ended June 30, 1999 are presented as follows:

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

	<u>Beginning Balance</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Ending Balance</u>
Certificates of Indebtedness	\$ 2,302,000	\$ ----	\$ 209,000	\$ 2,093,000
Revenue Bonds	450,000	----	135,000	315,000
General Obligations	1,340,000	----	75,000	1,265,000
Capital Leases	209,866	19,800	141,192	88,474
<u>Total general long-term debt</u>	<u>\$ 4,301,866</u>	<u>\$ 19,800</u>	<u>\$ 560,192</u>	<u>\$ 3,761,474</u>

Certificates of Indebtedness

The City has issued certificates which are secured by and payable from a pledge of the excess of annual revenues above statutory, necessary and usual charges incurred by the City. Certificates of indebtedness outstanding at June 30, 1999 are described as follows:

\$2,000,000 Taxable Certificates of Indebtedness, Series 1995 dated September 19, 1995, bearing interest at a rate of 8.5%. Principle is payable in annual installments ranging from \$135,000 to \$281,000, with the final installment due September 1, 2005.	\$ 1,560,000
\$630,000 Certificates of Indebtedness, Series 1997 dated May 21, 1997, bearing interest at a rate of 4.95%. Principle is payable in annual installments ranging from \$47,000 to \$81,000, with the final installment due March 1, 2007.	533,000
<u>Total Certificates of Indebtedness</u>	<u>\$ 2,093,000</u>

Revenue Bonds

The City has issued revenue bonds that are secured by and payable solely from a pledge of funds generated by a specific revenue source. Revenue bonds outstanding at June 30, 1999 are described as follows:

\$900,000 Utilities Revenue Bonds Series 1994, dated July 1, 1994 with an effective rate of interest ranging from 5.0% to 6.0% depending on the length of maturity. The bonds mature serially on May 1 st of each year in amounts ranging from \$5,000 to \$75,000. Final maturity is scheduled for May 1, 2019, unless the City elects to redeem the bonds prior to maturity. Bonds become eligible for redemption on May 1, of 2004.	\$ 845,000
\$1,100,000 Utilities Revenue Bonds, Series 1991 dated November 1, 1991 bearing interest at rates ranging from 6% to 10% depending on the	

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

length of maturity. The bonds mature serially on May 1 of each year in amounts ranging from \$20,000 to \$95,000. Final maturity is scheduled for May 1, 2016, unless the City elect to redeem the bonds prior to maturity. Bonds become eligible for redemption on May 1, 2002. 955,000

\$ 1,750,000 Public Improvement Sales Tax Bonds, Series 1980 dated September 1, 1980, bearing interest at a rate of 8.0%. The bonds mature serially on September 1st of each year in amounts ranging from \$5,000 to \$150,000. Final maturity is scheduled for September 1, 2005, unless the City elects to redeem the bonds prior to maturity. Bonds maturing on or after September 1, 1991 are subject to early redemption. The bonds are payable solely from and secured by an irrevocable pledge and dedication of the special one percent (1%) sales and used tax being levied by the City. 315,000

Total Revenue Bonds \$ 2,115,000

General Obligation Bonds

The City has issued has issued general obligations bonds payable from property taxes levied in the manner provided by State Law. General obligations outstanding at June 30, 1999 are described as follows:

\$1,700,000 General Obligation Bonds, Series 1991 August 1, 1991, with interest rates ranging from 7% to 12%. The bonds mature serially on March 1st of each year in amounts ranging from \$25,000 to \$160,000. Final maturity is scheduled for March 1, 2011, unless the City elects to redeem the bonds prior to maturity. Bonds become subject to early redemption on March 1, 2001. The bonds are secured by the full faith and credit of the City and a special tax levied on property subject to taxation within the boundaries of the City. \$ 1,265,000

Total General Obligations \$ 1,265,000

Capital Leases

The City has acquired equipment by entering into capital leasing arrangements. For financial reporting purposes, minimum lease payments relating to leased equipment have been capitalized. The leased property is reported by the general fixed assets account group at its original cost. Capital lease obligations outstanding at June 30, 1999 are described as follows:

Lease agreement dated March, 1996, executed in exchange for a 1995 International Model 4700, with an original balance of \$32,311, bearing interest at a rate of 5.4%, payable in 60 monthly installments of \$613 \$ 11,697

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

Lease agreement dated January, 1996, executed in exchange for a 1996 Chevrolet Suburban, with an original balance of \$36,935, bearing interest at a rate of 7.1%, payable in 48 monthly installments of \$886. 5,240

Lease agreement dated October 1999, executed in exchange for an automobile, with an original balance of \$19,800, bearing interest at a rate of 6.0%, payable in 48 monthly installments of \$465. 16,820

Installment purchase agreement dated December, 1996, executed in exchange for three 1997 Ford F-150 Trucks, with an original balance of \$55,009, bearing interest at a rate of 6%, payable in 48 monthly installments of \$1,285. 20,900

Installment purchase agreement dated October, 1997, executed in exchange for eight Ford police vehicles, with an original balance of \$193,140, bearing interest at a rate of 6%, payable in 24 monthly installment of \$8,560. 33,817

Total Capital lease obligations \$ 88,474

Maturity of Long-term Debt

A schedule of maturities of long-term debt excluding capital leases is presented as follows:

<u>Year Ended June 30th</u>	<u>Proprietary Fund Obligations</u>	<u>General Long-term Debt</u>	<u>Total</u>
2000	\$ 60,000	\$ 441,000	\$ 501,000
2001	60,000	469,000	529,000
2002	65,000	358,000	423,000
2003	70,000	384,000	454,000
2004	75,000	411,000	486,000
Thereafter	1,470,000	1,610,000	3,080,000
Total	\$ 1,800,000	\$ 3,673,000	\$ 5,473,000

Future minimum lease payments due under capital lease arrangements are presented as follows:

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

<u>Year Ended June 30th</u>	
2000	\$ 67,912
2001	16,909
2002	5,580
2003	1,860
<hr/>	
Total minimum lease payments	92,261
Amounts representing interest	(8,787)
<hr/>	
Present value of minimum lease payments	\$ 88,474

NOTE 5 – TAXES:

Ad Valorem Taxes:

The City bills and collects its own property taxes using the assessed values determined by the Tax Assessor of Rapides Parish. For the year ended June 30, 1999, the City has levied ad valorem taxes as follows:

<u>Description</u>	<u>Mills Levied</u>
Levied for general alimony as permitted by State Law. Revenue from taxes levied for general alimony is reported by the general fund.	6
Levied per proposition approved May 14, 1991, authorizing 10 mills for a period of 10 year beginning with 1991 for the purpose of paying salaries of the employees of the fire and police departments. Due to the restricted nature of these taxes, the revenue is reported in a special revenue fund.....	10
Levied per proposition approved May 14, 1991, authorizing general obligation debt to run for a period of 20 years payable from a levy of ad valorem taxes. Since these taxes are dedicated to debt service, revenue is reported in a debt service fund.	<u>4</u>
	<u>20</u>

Ad valorem taxes are assessed on a calendar year basis and are due on or before December 31 in the year the tax is levied. Revenues from ad valorem taxes are recognized as revenue in the year billed.

Sales Taxes:

Sales taxes are collected by the Parish of Rapides and remitted to the City on a monthly basis. For the year ended June 30 the City has levied sales taxes as follows:

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

<u>Description</u>	<u>Percentage Levied</u>
Levied per proposition approved April 4, 1987, authorizing a tax for the operation of the General Fund. Revenue generated by this tax is reported by the General fund.....	1%
Levied per proposition approved September 16, 1978, authorizing a tax "with the avails or proceeds of said tax to be dedicated and pledged to the payment of principle and interest and other amounts required on any sales tax revenue bonds issued by the City for any lawful public purpose; provided, however, that the avails or proceeds of said tax not required in each month for principle, interest and other payments on any sales tax revenue bonds, shall be allocated in an amount equal to 50% of the proceeds of the tax for paying salaries of municipal employees of said City and the remaining proceeds of the tax for constructing, acquiring and improving capital improvements for said City including streets, sidewalks, bridges, waterworks, sewers, drains and recreation and fire protection facilities. Since revenue from this source is subject to various restrictions, it is reported in a special revenue fund.	1%

In addition to the taxes described above, the City is also entitled to receive a portion (5%) of a parishwide sales tax. Since the parishwide tax is unrestricted, its proceeds are reported as revenue by the general fund.

NOTE 6 - PROPERTY AND EQUIPMENT

Changes in general fixed assets are presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land, Buildings & Improvements	\$ 2,438,116	\$ 104,461	\$ ----	2,542,577
Furniture, Fixtures and Equipment	3,065,839	119,931	----	3,185,770
Construction in Process	----	98,515	----	98,515
<u>Total General Fixed Assets</u>	<u>\$ 5,503,955</u>	<u>\$ 322,907</u>	<u>\$ ----</u>	<u>\$ 5,826,862</u>

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

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

Utility System	21,485,249
Equipment	585,066
Municipal Airport Improvements	368,230
Construction in Progress	34,530
<hr/>	
Total	22,473,075
Less Accumulated Depreciation	(6,110,664)
<hr/>	
Net Property and Equipment	\$ 16,362,411

NOTE 7- RISK MANAGEMENT

The City is exposed to various risk of loss related to torts; theft, damage or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City insures against these risks by participation in public entity risk pools that operate as common insurance programs and by purchasing commercial insurance. Settled claims resulting from these risk have not exceeded insurance coverage in any of the past three fiscal years.

In addition to the risk described above, the City also provides healthcare benefits for its employees and their dependents. During previous years, the City provided these benefits through a traditional health insurance policy; however, the City recently began retaining a portion of the risk associated with providing healthcare benefits. A Healthcare Benefits Fund (an internal service fund) was established on January 1, 1999 to account for and finance uninsured risk. At the present time, the Healthcare Benefits fund provides coverage up to a lifetime maximum of \$1,000,000 per covered employee.

The City manages risk associated with providing healthcare benefits by purchasing commercial insurance that covers excess claims. Currently, claims incurred in connection with an employee or their dependents are covered by commercial insurance to the extent that these claims exceed a limit of \$25,000 during a calendar year; however, the limit may be as high as \$75,000 for participants that were subject to preexisting medical conditions on January 1, 1999. Furthermore, any aggregate claims paid during a calendar year that exceed \$575,665 are covered by commercial insurance.

Each fund that provides compensation to employees contributes to the Healthcare Benefits Fund. The amount of the contributions is based on estimated expenses that are expected to be incurred by the Healthcare Benefits Fund. Estimated expenses are determined by considering exposure to uninsured claims, premiums that are necessary to maintain commercial insurance coverage and anticipated administrative expenses associated with processing claims.

The claims liability is determined based on information processed by the claims administrator during the early portion of the ensuing fiscal year. This information allows management to identify claims incurred prior to release of the financial statements. Changes in the claims liability reported by the Healthcare Benefits Fund since inception are presented as follows:

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

Claims and Changes in Estimate	\$ 575,665
Less Claim Payments	309,111
<hr/>	
Balance at Year End	\$ 266,554

At year end, the Healthcare Benefits Fund reported a retained earnings deficit in the amount of \$251,757. Benefits provided by excess insurance coverage are expected to be available during the ensuing fiscal year and the availability of these benefits is expected to allow the retained earnings deficit to be recovered through ordinary operations.

NOTE 8 - RESTRICTED RESOURCES

Bond covenants require the City to establish bank accounts which serve as debt service and depreciation reserves. Funds may be disbursed from these accounts only under specific circumstances described by the bond covenants.

NOTE 9 - CONTRIBUTED CAPITAL

The City receives contributed capital from a variety of sources, including grants, developers, and the capital improvement fund. Contributed capital and changes in contributed capital for each enterprise fund is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Utility Fund	\$ 13,718,558	\$ 1,151,257	\$ ----	\$ 14,869,815
Airport Fund	220,717	96,865	----	317,582
<hr/>				
Total	\$ 13,939,275	\$ 1,248,122	\$ ----	\$ 15,187,397

NOTE 10 – PENSION PLANS:

Substantially all City employees are members of statewide retirement systems. These systems are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Information regarding each plan is presented as follows:

Municipal Employees' Retirement System of Louisiana:

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 City participating in the retirement system 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

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

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. 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 by state statute.

The System issued 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 (225) 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 City is required to contribute at an actuarially determined rate. Contributions to the System also include one-fourth of one percent of the taxes shown to be collectible by the tax rolls of each parish, except Orleans and East Baton Rouge Parishes. 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 City are established and may be amended by state statute. As provided by State law, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the system were equal to the required contributions for the year.

Firefighters' Retirement System of Louisiana

Plan Description – Membership in the Louisiana Firefighters' Retirement System is mandatory for all full-time firefighters employed by a municipality, parish or fire protection district that did not enact an ordinance before January 1, 1980, exempting itself from participation in the System. Employees are eligible to retire at or after age 55 with at least 12 years of creditable service or at or after age 50 with at least 20 years of creditable service. Upon retirement, members are entitled to a retirement benefit, payable monthly for life, equal to $3^{1/3}$ percent of their final-average salary for each year of creditable service, not to exceed 100 percent of their 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 12 years of service and do not withdraw their employee contributions may retire at or after age 55 (or at or after age 50 with at least 20 years of creditable service at termination) 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.

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

The System issued 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 Firefighters' Retirement System, Post Office Box 94095, Baton Rouge, Louisiana 70804, or by calling (225) 925-4060.

Funding Policy – Plan members are required by state statute to contribute 8.0 percent of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 9.0 percent of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by state statute. As proved by state law, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the equal the required contributions for the year.

Municipal Police Employees Retirement System of Louisiana

Plan Description - All full-time police department employees engaged in law enforcement are eligible to participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70800-2250, or by calling (225) 929-7411.

Funding Policy - Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the City is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the City is established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the plan were equal to the required contributions for the year.

NOTE 11 – INTERFUND BALANCES

Amounts receivable and payable among the City's various funds are summarized as follows:

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 599,541	\$ 317,097
Special Revenue Funds:		
Dedicated 1% Sales Tax Fund	----	209,047
Dedicated 10 Mill Ad Valorem Tax Fund	2,605	----
Debt Service Funds:		
Public Improvement Sales Tax Bond Fund	----	58,474
General Obligation Bonds Series A-E Fund	----	----
Capital Projects Funds:		
Capital Improvements Fund	460,359	164,641
LA Community Development Block Grant Fund	6,260	----
Enterprise Funds:		
Utility Fund	158,614	495,006
Municipal Airport Fund	----	21,098
Agency Fund (Payroll)	38,293	----
	<hr/>	<hr/>
	\$ 1,265,672	\$ 1,265,672

NOTE 12 – CONTINGENCIES:

Existing conditions that may have financial consequences are referred to as contingencies. Contingencies existing at June 30, 1999 are described as follows:

Retirement Contributions:

As described in Note 10, state law requires the City and its employees to share the cost of participation in the Municipal Employees Retirement System (the System). However, the initial contribution to the system was funded entirely by the City. Based on an opinion rendered by the Attorney General, the City has violated the law by contributing to the system on behalf of its employees. Any financial consequences that may eventually result from this illegal act cannot be estimated at the present time. Accordingly, the accompanying financial statements do not include a provision for any financial consequences that may result from this matter.

Dedicated Funds:

As described in Note 5, a portion of the City's sales tax levy is dedicated to constructing, acquiring and improving capital improvements. During previous years, some of the dedicated funds may have been spent for purposes other than capital improvements. If previous expenditures are determined to be improper, it may be necessary for the City to appropriate resources from the general fund to reimburse the Capital Improvement Fund. The amount of any future appropriation from the general fund cannot be determined at the present time. Accordingly, the accompanying financial statements do not include a provision for any financial consequences that may result from this matter.

CITY OF PINEVILLE

Notes To Financial Statements

June 30, 1999

Insurance Premiums:

As, discussed in Note 7, the City manages risk associated with providing healthcare benefit by purchasing commercial insurance to cover excess claims. Under certain circumstances, the City's insurance carrier may retroactively adjust premiums in order to compensate for unfavorable claims experience. Any financial consequences that may result from retroactive adjustment of insurance premiums cannot be estimated at the present time. Accordingly, the accompanying financial statements do not include a provision for any liability that may result from this matter.

NOTE 13 – SUBSEQUENT EVENTS:

As discussed in Note 7, the City provides healthcare benefits for its employees and their dependents. On December 17, 1999, the City received quotes regarding the expected cost of continuing to provide benefits of this nature. Based on the quotes received, the City will be required to begin retaining additional risk associated with providing these benefits and the overall cost of furnishing the benefits is expected to increase substantially.

For the year ended June 30, 1999, the cost of providing healthcare benefits was approximately \$860,000. Unless additional resources become available, a substantial increase in these amounts may adversely effect the City's financial condition.

CITY OF PINEVILLE

General Fund

Statement of Current Expenditures by Department

For the Year Ending June 30, 1999

DEPARTMENT:	General Government								Total
	Judicial	Executive	Finance & Administrative	Public Safety	Public Works	Health & Welfare	Culture & Recreation		
City Shop	\$ -	\$ -	\$ -	\$ -	\$ 180,320	\$ -	\$ -	\$ -	\$ 180,320
Police	-	-	-	1,456,721	-	-	-	-	1,456,721
City Court	135,298	-	-	-	-	-	-	-	135,298
Impounding	-	-	-	-	-	105,000	-	-	105,000
Fire	-	-	-	1,185,356	-	-	-	-	1,185,356
Recreation	-	-	-	-	-	-	222,599	-	222,599
City Marshall	73,231	-	-	-	-	-	-	-	73,231
Administration	-	-	1,291,365	-	-	-	-	-	1,291,365
Executive	-	143,642	-	-	-	-	-	-	143,642
Street Maintenance	-	-	-	-	604,284	-	-	-	604,284
Drainage Maintenance	-	-	-	-	251,941	-	-	-	251,941
Garbage Collection	-	-	-	-	508,180	-	-	-	508,180
Trash Removal	-	-	-	-	483,078	-	-	-	483,078
Community Centers	-	-	-	-	-	-	164,246	-	164,246
Buildings Maintenance	-	-	-	-	109,499	-	-	-	109,499
Total Expenditures	\$ 208,529	\$ 143,642	\$ 1,291,365	\$ 2,642,077	\$ 2,137,302	\$ 105,000	\$ 386,845	\$ -	\$ 6,914,760

CITY OF PINEVILLE

Special Revenue Funds

Combining Balance Sheet

June 30, 1999

	<u>Dedicated 1% Sales Tax</u>	<u>Dedicated 10 Mill Ad Valorem Tax</u>	<u>Special Economic Development Projects</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 23	\$ 210,165	\$ 282,514	\$ 492,702
Receivables	209,024	-	-	209,024
Interfund receivable	-	2,605	-	2,605
Total assets	<u>\$ 209,047</u>	<u>\$ 212,770</u>	<u>\$ 282,514</u>	<u>\$ 704,331</u>
<u>LIABILITIES AND EQUITY</u>				
LIABILITIES:				
Accounts and other payables	\$ -	\$ -	\$ 18,875	\$ 18,875
Interfund payables	209,047	-	-	209,047
Total Liabilities	209,047	-	18,875	227,922
EQUITY:				
Fund Balance, Unreserved	-	212,770	263,639	476,409
Total liabilities and equity	<u>\$ 209,047</u>	<u>\$ 212,770</u>	<u>\$ 282,514</u>	<u>\$ 704,331</u>

CITY OF PINEVILLE

Special Revenue Funds

Combining Statement of Revenues and Expenditures

For the Year Ended June 30, 1999

	Dedicated 1% Sales Tax	Dedicated 10 Mill Ad Valorem Tax	Special Economic Development Projects	Total
<u>REVENUES:</u>				
Taxes:				
Ad valorem	\$ -	\$ 474,783	\$ -	\$ 474,783
Sales	2,288,341	-	-	2,288,341
Intergovernmental	-	-	54,000	54,000
Other	-	15,105	11,577	26,682
Total revenues	2,288,341	489,888	65,577	2,843,806
<u>EXPENDITURES:</u>				
Finance and Administration	-	6,818	-	6,818
Culture and Recreation	-	-	22,790	22,790
Capital Expenditures	-	-	25,719	25,719
Total expenditures	-	6,818	48,509	55,327
Excess (deficiency) of revenues over expenditures	2,288,341	483,070	17,068	2,788,479
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers out				
To General Fund	(1,144,170)	(495,693)	-	(1,639,863)
To Capital Improvements Fund	(1,055,087)	-	-	(1,055,087)
To Sales Tax Bond Debt Service	(89,084)	-	-	(89,084)
Total operating transfers in	(2,288,341)	(495,693)	-	(2,784,034)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ (12,623)	\$ 17,068	\$ 4,445

CITY OF PINEVILLE

Debt Service Funds

Combining Balance Sheet

June 30, 1999

	Public Improvement Sales Tax Bonds	General Obligation Bonds Series 1991 A-E	Certificate of Indebtedness Series 1995	Certificate of Indebtedness Series 1997	Total
<u>ASSETS</u>					
Cash	\$ 358,540	\$ 99,458	\$ 223,802	\$ 31,521	\$ 713,321
Interfund receivable	-	-	-	-	-
Total assets	<u>\$ 358,540</u>	<u>\$ 99,458</u>	<u>\$ 223,802</u>	<u>\$ 31,521</u>	<u>\$ 713,321</u>
<u>LIABILITIES AND EQUITY</u>					
LIABILITIES:					
Accounts and other payables	\$ -	\$ -	\$ -	\$ -	\$ -
Interfund payables	58,474	310	-	-	58,784
Total Liabilities	58,474	310	-	-	58,784
EQUITY:					
Fund Balance, Unreserved	300,066	99,148	223,802	31,521	654,537
Total liabilities and equity	<u>\$ 358,540</u>	<u>\$ 99,458</u>	<u>\$ 223,802</u>	<u>\$ 31,521</u>	<u>\$ 713,321</u>

CITY OF PINEVILLE

Debt Service Funds

Combining Statement of Revenues and Expenditures

For the Year Ended June 30, 1999

	Public Improvement Sales Tax Bonds	General Obligation Bonds Series 1991 A-E	Certificate of Indebtedness Series 1995	Certificate of Indebtedness Series 1997	Total
REVENUES:					
Ad valorem taxes	\$ -	\$ 183,137	\$ -	\$ -	\$ 183,137
Other	13,697	7,433	6,490	991	28,611
Total revenues	<u>13,697</u>	<u>190,570</u>	<u>6,490</u>	<u>991</u>	<u>211,748</u>
EXPENDITURES:					
Finance & Administration	973	3,920	-	-	4,893
Debt Service:					
Principle	135,000	75,000	159,000	50,000	419,000
Interest	30,600	95,330	139,358	28,858	294,146
Total expenditures	<u>166,573</u>	<u>174,250</u>	<u>298,358</u>	<u>78,858</u>	<u>718,039</u>
Excess (deficiency) of revenues over expenditures	<u>(152,876)</u>	<u>16,320</u>	<u>(291,868)</u>	<u>(77,867)</u>	<u>(506,291)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in:					
From General Fund	-	-	230,554	-	230,554
From Dedicated 1% Sales Tax Fund	89,083	-	-	-	89,083
From Capital Improvement Fund	-	-	-	79,400	79,400
From Utility Fund	-	-	74,089	-	74,089
Total operating transfers in	<u>89,083</u>	<u>-</u>	<u>304,643</u>	<u>79,400</u>	<u>473,126</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (63,793)</u>	<u>\$ 16,320</u>	<u>\$ 12,775</u>	<u>\$ 1,533</u>	<u>\$ (33,165)</u>

CITY OF PINEVILLE

Capital Project Funds

Combining Balance Sheet

June 30, 1999

	<u>Capital Improvements</u>	<u>Urban Systems</u>	<u>Louisiana Community Development Block Grant</u>	<u>Sunnyhill Construction Project</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 585,035	\$ -	\$ -	\$ -	\$ 585,035
Receivables	13,396	-	-	-	13,396
Interfund receivable	460,359	-	6,260	-	466,619
Total assets	<u>\$ 1,058,790</u>	<u>\$ -</u>	<u>\$ 6,260</u>	<u>\$ -</u>	<u>\$ 1,065,050</u>
<u>LIABILITIES AND EQUITY</u>					
LIABILITIES:					
Accounts and other payables	\$ 142,953	\$ -	\$ 6,260	\$ -	\$ 149,213
Interfund payables	164,641	-	-	-	164,641
Total Liabilities	307,594	-	6,260	-	313,854
EQUITY:					
Fund Balance, Unreserved	751,196	-	-	-	751,196
Total liabilities and equity	<u>\$ 1,058,790</u>	<u>\$ -</u>	<u>\$ 6,260</u>	<u>\$ -</u>	<u>\$ 1,065,050</u>

CITY OF PINEVILLE

Capital Project Funds

Combining Statement of Revenues and Expenditures

For the Year Ended June 30, 1999

	Capital Improvements	Urban Systems	Louisiana Community Development Block Grant	Sunnyhill Construction Project	Total
REVENUES:					
Intergovernmental	\$ 369,386	\$ -	\$ 630,908	\$ -	\$ 1,000,294
Other	26,605	-	-	2,138	28,743
Total revenues	<u>395,991</u>	<u>-</u>	<u>630,908</u>	<u>2,138</u>	<u>1,029,037</u>
EXPENDITURES:					
Capital Expenditures					
Street and sidewalk improvements	296,970	2,736	-	-	299,706
Utility system improvements	308,809	-	643,448	-	952,257
Recreation facility improvements	102,971	-	-	-	102,971
Fire protection facility improvements	13,046	-	-	-	13,046
Airport improvements	96,865	-	-	-	96,865
Drainage improvements	3,683	-	-	-	3,683
Acquisition of recreation equipment	16,579	-	-	-	16,579
Miscellaneous	7,734	-	-	-	7,734
Total expenditures	<u>846,657</u>	<u>2,736</u>	<u>643,448</u>	<u>-</u>	<u>1,492,841</u>
Excess (deficiency) of revenues over expenditures	<u>(450,666)</u>	<u>(2,736)</u>	<u>(12,540)</u>	<u>2,138</u>	<u>(463,804)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in:					
From Capital Improvements Fund	-	2,736	12,540	-	15,276
From Sunnyhill Construction Project Fund	112,877	-	-	-	112,877
From Dedicated 1% Sales Tax Fund	1,055,087	-	-	-	1,055,087
Total transfers in	<u>1,167,964</u>	<u>2,736</u>	<u>12,540</u>	<u>-</u>	<u>1,183,240</u>
Operating transfers out:					
To Urban Systems Fund	(2,736)	-	-	-	(2,736)
To Capital Improvements Fund	-	-	-	(112,877)	(112,877)
To Louisiana Community Development Block Grant Fund	(12,540)	-	-	-	(12,540)
To Certificate of Indebtedness Series 1997 Debt Service Fund	(79,400)	-	-	-	(79,400)
Total transfers out	<u>(94,676)</u>	<u>-</u>	<u>-</u>	<u>(112,877)</u>	<u>(207,553)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 622,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (110,739)</u>	<u>\$ 511,883</u>

CITY OF PINEVILLE

Enterprise Funds

Combining Balance Sheet

June 30, 1999

	<u>Utility System</u>	<u>Municipal Airport</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 344,285	\$ 11,615	\$ 355,900
Receivables	563,203	-	563,203
Interfund receivable	158,614	-	158,614
Other assets	299	2,400	2,699
Restricted cash	441,338	-	441,338
Land, buildings and equipment (net of accumulated depreciation)	<u>16,011,438</u>	<u>350,973</u>	<u>16,362,411</u>
Total assets	<u>\$ 17,519,177</u>	<u>\$ 364,988</u>	<u>\$ 17,884,165</u>
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES:			
Accounts and other payables	\$ 97,341	\$ 9,799	\$ 107,140
Interfund payables	495,006	21,098	516,104
Deposits due others	255,124	-	255,124
Accrued interest payable from restricted assets	19,036	-	19,036
Revenue bonds payable	<u>1,800,000</u>	<u>-</u>	<u>1,800,000</u>
Total Liabilities	<u>2,666,507</u>	<u>30,897</u>	<u>2,697,404</u>
EQUITY:			
Contributed Capital	14,869,815	317,582	15,187,397
Retained Earnings:			
Reserved by bond covenants	422,302	-	422,302
Unreserved	<u>(439,447)</u>	<u>16,509</u>	<u>(422,938)</u>
Total Equity	<u>14,852,670</u>	<u>334,091</u>	<u>15,186,761</u>
Total liabilities and equity	<u>\$ 17,519,177</u>	<u>\$ 364,988</u>	<u>\$ 17,884,165</u>

CITY OF PINEVILLE

Enterprise Funds

Combining Statement of Revenue and Expenses

For the Year Ended June 30, 1999

	<u>Utility System</u>	<u>Municipal Airport</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>			
Utility Service	2,196,988	-	2,196,988
Other	<u>124,979</u>	<u>14,858</u>	<u>139,837</u>
Total operating revenues	<u>2,321,967</u>	<u>14,858</u>	<u>2,336,825</u>
<u>OPERATING EXPENSES:</u>			
Salaries	664,327	38,350	702,677
Contract labor	18,806	-	18,806
Legal and professional	82,609	6,112	88,721
Repairs and maintenance	136,894	4,086	140,980
Supplies and chemicals	116,478	1,602	118,080
Employee benefits	220,831	14,275	235,106
Utilities	330,274	2,834	333,108
Permits and testing	34,421	-	34,421
Depreciation	456,783	2,539	459,322
Other	<u>110,201</u>	<u>4,539</u>	<u>114,740</u>
Total operating expenses	<u>2,171,624</u>	<u>74,337</u>	<u>2,245,961</u>
Operating income (loss)	150,343	(59,479)	90,864
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest revenue	40,646	-	40,646
Interest expense	<u>(119,070)</u>	<u>-</u>	<u>(119,070)</u>
Net income (loss) before operating transfers	71,919	(59,479)	12,440
Operating transfers in (out):			
(To) From General Fund	(369,822)	36,000	(333,822)
(To) From Debt Service (Series 1995)	<u>(74,089)</u>	<u>-</u>	<u>(74,089)</u>
Total Operating Transfers	<u>(443,911)</u>	<u>36,000</u>	<u>(407,911)</u>
Net income (loss)	<u>\$ (371,992)</u>	<u>\$ (23,479)</u>	<u>\$ (395,471)</u>

CITY OF PINEVILLE

Utility System Fund

Statement of Expenses by Department

For the Year Ended June 30, 1999

	Water Lines	Water Wells	Sewer Lines	Sewer Pumps	Administration	Sewer Treatment	Other	Total
<u>OPERATING EXPENSES:</u>								
Salaries	207,437	139,851	69,774	103,497	62,126	81,642	-	664,327
Contract labor	12,684	-	-	-	6,122	-	-	18,806
Legal and professional	-	-	-	-	74,429	8,180	-	82,609
Repairs and maintenance	71,653	18,759	7,191	23,611	-	15,680	-	136,894
Supplies and chemicals	34,453	19,932	12,361	5,262	13,679	30,791	-	116,478
Employee benefits	73,856	49,949	20,054	33,113	15,927	27,932	-	220,831
Utilities	-	210,802	-	57,264	-	62,208	-	330,274
Permits and testing	-	-	-	-	-	34,421	-	34,421
Depreciation	-	-	-	-	-	-	456,783	456,783
Other	27,333	15,547	15,004	14,703	21,642	15,972	-	110,201
Total operating expenses	427,416	454,840	124,384	237,450	193,925	276,826	456,783	2,171,624

CITY OF PINEVILLE

Schedule of Compensation Paid to Board Members For the year ended June 30, 1999

Leo Deslatte	43,565
Jack Wainwright	7,500
Lee Broussard	7,500
Joe Bishop	7,500
Clarence Fields	7,500
Carol Cunningham	7,500
	<hr/>
Total Compensation	<u>81,065</u>

CITY OF PINEVILLE

Schedule of Expenditure of Federal Financial Awards For the year ended June 30, 1999

<u>FEDERAL GRANTOR / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: Pass-through State of Louisiana, Division of Administration Community Development Block Grants	14.228	\$ <u>630,908</u>

Note

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

ROZIER, HARRINGTON & McKAY
CERTIFIED PUBLIC ACCOUNTANTS

1407 PETERMAN DRIVE
ALEXANDRIA, LOUISIANA 71301

JOHN S. ROZIER, IV, C.P.A.
M. DALE HARRINGTON, C.P.A.
MARK S. MCKAY, C.P.A.
LEE W. WILLIS, C.P.A.
LAWRENCE E. MAYEAUX, C.P.A.

MAILING ADDRESS
POST OFFICE BOX 12178
ALEXANDRIA, LOUISIANA 71315-2178
TELEPHONE (318) 442-1608
TELECOPIER (318) 487-2027

December 17, 1999

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

To the Mayor and Board of Aldermen
City of Pineville, Louisiana

Compliance

We have audited the compliance of the City of Pineville 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 each of its major federal programs for the year ended June 30, 1999. The City of Pineville's major federal programs are identified in the summary of auditor's 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 City of Pineville's management. Our responsibility is to express an opinion on the City of Pineville'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 City of Pineville'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 City of Pineville's compliance with those requirements.

In our opinion the City of Pineville 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.

Internal Control Over Compliance

The management of the City of Pineville 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 City of Pineville'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 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 operating of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement of laws, regulations, contracts and grants that 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 for the information of the City of Pineville's management. However, this report is a matter of public record and its distribution is not limited.



ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

CITY OF PINEVILLE

Summary of Findings and Questioned Cost June 30, 1999

PART I - SUMMARY OF AUDITOR'S RESULTS:

- The Independent Auditor's Report on the general purpose financial statements for the City of Pineville as of June 30, 1999 and for the year then ended expressed a qualified opinion. Including a qualification in the Independent Auditors' Report was unavoidable because auditors unable to express an opinion on year 2000 disclosures that are required by the Generally Accepted Accounting Principles.
- Reportable conditions were noted in the audit and one of the reportable conditions was considered to be a material weaknesses.
- The results of the audit disclosed instances of noncompliance that are considered to be material to the general purpose financial statements of the City of Pineville.
- The Independent Auditor's 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 City of Pineville 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, Financial Reporting:

In order to properly administer City affairs, municipal officials need timely access to accurate financial information. Unfortunately, financial information available for the year ended June 30, 1999 was neither timely or accurate.

The City's books and records were made available to our staff on October 20, 1999. This delivery date allowed a period of almost four months for any necessary corrections or revisions to be recorded; however, numerous adjustments were needed after October 20, 1999 in order to properly present amounts reported in the City's accounting records. Some of the deficiencies that represent departures from the basic concepts of proper governmental bookkeeping are described as follows:

CITY OF PINEVILLE

Summary of Findings and Questioned Cost June 30, 1999

- Balances for cash held in bank accounts reported by the City's accounting records did not agree with the reconciled bank account balances. In some cases, substantial adjustments were needed in order to properly report cash balances.
- Interfund receivables and payables were not properly reported. In numerous cases, amounts reported as a receivable or payable by a particular fund did not agree with the corresponding payable or receivable reported on another fund.
- Interfund transfers were not properly reported. In numerous cases, amounts reported as a transfer in or transfer out by a particular fund did not agree with the corresponding transfer out or transfer in reported on another fund.
- A fundamental feature of proper bookkeeping requires accounting records to be in balance. This is accomplished by utilizing a double entry system that requires each entry to be accompanied by a corresponding offsetting entry; however, the City of Pineville did not completely utilize this concept. The general ledger delivered to our staff on October 20, 1999 was not in balance.

Since timely and accurate financial information is essential to the proper management of the City's affairs, the City needs to recruit personnel with an accounting background and begin producing the necessary information in a prompt manner.

99-2, Personnel Policy:

The City does not have a comprehensive personnel policy manual. Furthermore, existing personnel policies include vague terminology and ambiguous provisions that lead to difficulty in the application of these policies. Since the City employs in excess of two hundred (200) people a comprehensive personnel manual is a necessity. In addition, the personnel manual should clearly define the City's policy regarding personnel issues. A partial list of issues that should be addressed is provided as follows:

- Working conditions, including 1)attendance and timekeeping policies, 2)overtime policies, 3)observance of holidays, 4)employee evaluations, 5)disciplinary practices, etc.
- Compensation and benefits.
- Annual leave policies, including the amount of annual leave that may be carried forward to future periods and whether employees will be compensated for any unused annual leave upon termination.
- Sick and maternity leave policies, including details regarding correspondence that must be provided by the employees attending physician.
- Approved hiring practices.
- Standards of conduct.
- Grievance procedures.
- Travel and expense reimbursement policies.

CITY OF PINEVILLE

Summary of Findings and Questioned Cost June 30, 1999

In order to avoid confusion, the City's new personnel manual should be adopted by an ordinance that supersedes any previous personnel policies that have been approved by the City.

99-3, Unfavorable Budget Variances:

State Law requires the City to adopt a budget for the general fund and each special revenue fund. Furthermore, State Law imposes limits on unfavorable variances between actual results and budget projections. These limits are described as follows:

- Total projected revenue as presented in the budget may not exceed actual revenue by more than five percent (5%).
- Actual expenditures may not exceed projected expenditures as presented in the budget by more than five percent (5%).

For the year ending June 30, 1999, the City experienced unfavorable budget variances that exceeded the threshold imposed by State Law. The unfavorable budget variances are described as follows:

- **Dedicated 10 Mill Ad Valorem Tax** – Budgeted revenue exceeded actual revenue by an amount greater than five percent (5%) of budgeted revenue.
- **Special Economic Development Projects** - Budgeted revenue exceeded actual revenue by an amount greater than five percent (5%) of budgeted revenue. Furthermore, actual expenditures exceeded budgeted expenditures by an amount greater than five percent (5%) of budgeted expenditures.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS WHICH SHALL INCLUDE AUDIT FINDINGS AS DEFINED BY OMB CIRCULAR A-133:

None

CITY OF PINEVILLE

Management's Corrective Action Plan

June 30, 1999

SECTION I	
INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
<u>FINDINGS</u>	<u>RESPONSE</u>
<p><u>99-1, Financial Reporting:</u> In order to properly administer City affairs, municipal officials need timely access to accurate financial information. Unfortunately, financial information available for the year ended June 30, 1999 was neither timely or accurate.</p> <p>The City's books and records were made available to our staff on October 20, 1999. This delivery date allowed a period of almost four months for any necessary corrections or revisions to be recorded; however, numerous adjustments were needed after October 20, 1999 in order to properly present amounts reported in the City's accounting records.</p>	<p><u>99-1, Financial Reporting:</u> The City is currently in the process of recruiting a new Finance Director. Furthermore, the City has acquired new accounting software that is expected to eliminate many of the adjustments that were previously necessary.</p> <p>Once the Finance Director position has been filled, and the new accounting software has been implemented, the City expects to begin producing accurate financial information in a timely manner.</p>
<p><u>99-2, Personnel Policy:</u> The City does not have a comprehensive personnel policy manual. Furthermore, existing personnel policies include vague terminology and ambiguous provisions that lead to difficulty in the application of these policies. Since the City employs in excess of two hundred (200) people a comprehensive personnel manual is a necessity. In addition, the personnel manual should clearly define the City's policy regarding personnel issues.</p>	<p><u>99-2, Personnel Policy:</u> The City has drafted a comprehensive personnel policy manual that is currently being review by legal council. The new policy manual is expected to be completed and presented to the City Council for approval in the near future.</p>
<p><u>99-3, Unfavorable Budget Variances:</u> State Law requires the City to adopt a budget for the general fund and each special revenue fund. Furthermore, State Law imposes limits on unfavorable variances between actual results and budget projections. For the year ending June 30, 1999, the City experienced unfavorable budget variances that exceeded the threshold imposed by State Law.</p>	<p><u>99-3, Unfavorable Budget Variances:</u> As discussed previously, the City is currently recruiting a new Finance Director and new accounting software is being implemented. These improvements are expected to produce timely and accurate financial information. Furthermore, this information is expected to serve as a tool that will allow the City to avoid any future unfavorable budget variances.</p>
SECTION II	
INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
<u>FINDINGS</u>	<u>RESPONSE</u>
<p><u>Not Applicable</u></p>	<p><u>Not Applicable</u></p>

CITY OF PINEVILLE

Management's Corrective Action Plan

June 30, 1999

SECTION III MANAGEMENT LETTER

FINDINGS

Utility Usage:

Rozier, Harrington & McKay (RH&M) recommended that the City begin billing all sewer customers based on water consumption. In particular it was recommended that sewer customers located outside the City's water service area be billed based on usage.

Fixed Asset Records:

In order to correct inadequacies involving the City's fixed asset records the following recommendations were made:

- Avoid capitalizing purchases with a cost of less than \$1,000, items that are replaced frequently due to wear or obsolesce, and repairs that are not expected to significantly extend the useful life of a particular asset.
- Conduct a physical inventory and delete any items that are no longer in operation.
- Apply a tag or label to each movable item that appears on the fixed asset records. The tag or label should include a unique identifying number that is cross referenced to the fixed asset records.
- Assign City personnel to prepare the City's fixed asset records internally.

Approval of Debt:

It was determined that the City apparently incurred debt without obtaining the necessary approval from the State Bond Commission. In order to comply with State Law, RH&M recommended that management avoid incurring future debt unless the necessary approval has been granted.

High Volume Water Rates:

The City has negotiated utility rate contracts with some of its larger customers. A review of these contracts has identified certain matters of concern. In order to alleviate these concerns, RH&M has made the following recommendations:

Since retroactive implementation of high volume utility rates may have violated State Law, RH&M suggested obtaining a legal opinion that will clarify this issue before engaging in any further retroactive rate adjustments.

RESPONSE

Utility Usage:

Due to limitations involving the City's utility billing software, the City has been unable to bill certain sewer customers based on water consumption. However, as noted previously, the City has acquired new accounting software. The new software includes a new utility billing system that is expected to allow the City to begin billing each sewer customer based on water usage.

Fixed Asset Records:

As noted previously, the City is currently recruiting a new Finance Director. Duties assigned to the new Finance Director are expected to include responsibility for maintaining adequate fixed asset records. The City has already selected and acquired software to be used for maintaining these records.

Approval of Debt

In the course of obtaining general liability insurance coverage, the City entered into an arrangement for paying insurance premiums on a monthly basis. It has been brought to the City's attention, that arranging to pay insurance premiums in this manner resulted in the execution of a debt instrument. Since this matter has been brought to the City's attention, every effort will be made to avoid entering into future obligations that may involve a debt instrument.

High Volume Water Rates:

The City intends to address each of the concerns identified in the management letter before awarding any additional utility rate contracts.

CITY OF PINEVILLE

Management's Corrective Action Plan

June 30, 1999

Since a contract was awarded to a customer that may not meet the City Council's definition of "high volume usage," it may be necessary for the City Council to reconsider the definition and adopt any necessary changes.

Debt Covenants:

In connection with revenue bonds issued by the City, it has entered into agreements that require monthly deposits to certain restricted bank accounts. During the year ended June 30, 1999 these deposits were not made on a monthly basis. RH&M has recommended conducting a comprehensive review of bond agreements to ensure future compliance with covenants imposed by those agreements.

Debt Covenants:

As noted previously, the City is currently recruiting a new Finance Director. Duties assigned to the new Finance Director are expected to include responsibility for reviewing each bond agreement to ensure the City complies with each applicable covenant.

CITY OF PINEVILLE

Summary of Prior Year Findings and Questioned Cost June 30, 1999

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.

FINDINGS

98-1, Dedicated Sales Taxes:

A portion of the City's sales tax levy is dedicated to constructing, acquiring and improving capital improvements. According to the proposition authorizing the tax capital improvements include streets, sidewalks, bridges, waterworks, sewers, drains and recreation and fire protection facilities. However, some of the dedicated funds appear to have been expended for purposes do not involve capital improvements. In order to ensure that dedicated funds are expended in the proper manner, Rozier, Harrington & McKay (RH&M) recommend obtaining a legal opinion that clarifies the term "capital improvement." Dedicated funds should not be used for any future expenditures that do not fall within the scope of capital improvements.

98-2, Personnel Policy:

The City does not have a comprehensive personnel policy manual. Furthermore, existing personnel policies include vague terminology and ambiguous provisions that lead to difficulty in the application of these policies. Since the City employs in excess of two hundred (200) people a comprehensive personnel manual is a necessity. In addition, the personnel manual should clearly define the City's policy regarding personnel issues.

98-3, Cash Disbursements:

During the course of our audit, RH&M observed certain deficiencies involving the processing of cash disbursements. Based on RH&M's observations, the following recommendations have been provided.

- Access to blank checks should be limited to personnel that are responsible for preparing checks.
- Access to mechanical check signing devices should be strictly limited to the person who's signature is produced by the devise.
- Individuals with access to the general ledger or the bank statements should be prohibited from signing checks.

98-4, Segregation of Duties:

Currently, administrative personnel responsible for signing

RESPONSE

98-1, Resolved:

Funds that are dedicated to Capital Improvement have been expended in the manner prescribed by the sales tax proposition that was approved on September 16, 1978.

98-2, Unresolved:

As noted in the current findings, City officials are preparing a draft of the proposed personnel policy manual; however, a comprehensive personnel policy manual has not been implemented.

98-3, Resolved:

The City has alleviated problems with the cash disbursement process by implementing the following changes to the cash disbursement system.

- Blank checks are stored in a secure location that is accessible only to persons responsible for preparing checks.
- The City has acquired a mechanical check signing devise that is secured by a locking mechanism which required two keys in order to initiate operation.
- Keys to the mechanical check signing devise are assigned to personnel that are not involved in the reconciliation of bank accounts or the mechanical check signing process.

98-4, Resolved:

The City has adopted practical measures to ensure that no

CITY OF PINEVILLE

Summary of Prior Year Findings and Questioned Cost June 30, 1998

<p>checks and collecting cash payments have complete access to the City's computerized record keeping system. In the future, employees with access to financial resources should have very limited access to the financial records. Furthermore, RII&M recommend reviewing each administrative employees responsibilities, and reassigning any incompatible duties. In general, physical access to resources should be the responsibility of personnel assigned to the City Clerk and custody of accounting records should be the responsibility of personnel assigned to the Finance Director.</p> <p><u>98-5, Administration of Public Funds:</u></p> <p>The State Constitution places certain restrictions on the use of municipal resources. In general, the City cannot legally loan, pledge, or donate anything of value to any person, association or corporation. In the course of performing the audit, apparent violations of constitutional provisions were discovered. Management can avoid future violations of this nature by becoming familiar with Article 7, Paragraph 14 of the Louisiana Constitution. Furthermore, any transactions that might potentially violate these constitutional provisions should be referred to legal counsel.</p> <p><u>98-6, Budgeting:</u></p> <p>State law requires the general fund and each special revenue fund to have a budget. In addition, expenditures that exceed the budgeted amount by more than five percent are prohibited. For the year ended June 30, 1998, general fund expenditures exceeded the budget by an amount that exceeds the margin allowed by state law. In the future, the City should carefully monitor expenditures and amend the budget as necessary.</p> <p><u>98-7, Restrictive Covenants:</u></p> <p>In the course of performing the audit, it was determined some of the restrictive covenants have been violated. As a result, the following recommendations were made.</p> <ul style="list-style-type: none"> • Increase the amount of coverage provided by fidelity bonds and extend coverage to all officers or employees that have access to City funds. • Terminate service for any utility customer that becomes delinquent by a period of more than 10 days. • Replace all broken water meters. <p>Adopt a rate structure that will provide sufficient income to operate the utility system and repay utility revenue bonds.</p>	<p>single employee has access to both financial resources and the related accounting records.</p> <p><u>98-5, Resolved:</u></p> <p>None of the apparent violations of Article 7, Paragraph 14 of the Louisiana Constitution which were previously reported as 98-5 were detected as a result of the current audit.</p> <p><u>98-6, Unresolved:</u></p> <p>As noted in the current findings, unfavorable budget variances exceeded the margin allowed by State Law.</p> <p><u>98-7, Resolved:</u></p> <p>The City has implemented each of the recommendations reported as 98-7.</p>
<p>SECTION II</p> <p>INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</p>	
<p><u>NOT APPLICABLE</u></p>	<p><u>NOT APPLICABLE</u></p>

CITY OF PINEVILLE

Summary of Prior Year Findings and Questioned Cost

June 30, 1998

SECTION III MANAGEMENT LETTER

FINDINGS

Utility Usage:

During the course of the audit, it was determined that a large portion of the City's water meters are not in working order. RH&M recommended correcting this situation. In addition, RH&M recommended that the City began billing all sewer customers based on water consumption. In particular, it was recommended that sewer customers located outside the City's water service area be billed based on usage.

Utility Rate Structure:

Expenses associated with operating the City's utility system exceeded revenue generated by the system. As a result, a revised rate structure was recommended.

Sanitation Rate Structure:

Revenue generated by sanitation fees allows the City to recover only a fraction of the cost incurred in the course of providing sanitation service. In order to avoid financial difficulty, a rate increase was recommended.

Insurance:

Since insurance represents one of the City's larger operating expenditures, RH&M recommended the following:

- Identify opportunities to lower premiums through deductibles, coinsurance or self insurance without exposing the City to undue levels of risk.
- Determine that coverage is appropriate for the City's level of risk exposure.
- Ensure that insurance coverage is sufficient to meet revenue bond covenants.
- Obtain sufficient fidelity bond coverage to comply with revenue bond covenants.

Fixed Asset Records:

In order to correct inadequacies involving the City's fixed asset records the following recommendations were made:

- Avoid capitalizing purchases with a cost of less than \$1,000, items that are replaced frequently due to wear or obsolesce, and repairs that are not expected to significantly extend the useful life of a particular asset.
- Conduct a physical inventory and delete items that are no longer in operation.

FINDINGS

Partially Resolved:

The city has addressed the portion of last years comments involving water meters that are not in working order; however, the portion of last years findings involving sewer customers that are located outside of the City's water service area has not been fully addressed. Waterworks District No. 3 has provided the City with access to meter readings for customers that are connected to the City's sewer system but the City's computerized billing system must be modified in order to begin billing these customers based on water consumption.

Resolved:

The City has adopted an adequate utility rate structure.

Resolved:

The City has adopted an adequate sanitation rate structure.

Resolved:

The City has addressed the insurance issues reported in the previous management letter. Action taken by the City includes adopting a new health insurance program for City employees and acquiring a blanket fidelity bond covering the City's administrative staff.

Unresolved:

The City has acquired software for maintaining fixed asset records; however, additions and disposals for the year ended June 30, 1999 have not been recorded. Furthermore, the City needs to complete the following task.

- Conduct a physical inventory and delete items that are no longer in operation.
- Apply a tag or label to each movable item that appears on the fixed asset records. The tag or label should include an

CITY OF PINEVILLE

Summary of Prior Year Findings and Questioned Cost June 30, 1998

<ul style="list-style-type: none">• Apply a tag or label to each movable item that appears on the fixed asset records. The tag or label should include a unique identifying number that is cross referenced to the fixed asset records.• Acquire fixed asset software and assign personnel to prepare the City's fixed asset records internally. <p><u>Occupational Licenses:</u></p> <p>In order to maximize revenue from occupational licenses, the following recommendations were made:</p> <ul style="list-style-type: none">• Review utility billing records for the purpose of identifying commercial utility customers that have not applied for occupational licenses.• Notify insurance companies that are authorized to do business in the state that occupational licenses are required.	<ul style="list-style-type: none">• unique identifying number that is cross referenced to the fixed asset records.• Assign personnel to prepare the City's fixed asset records. <p><u>Resolved:</u></p> <p>The City has adopted measures to identify and collect revenue from delinquent occupational licenses. Revenue from occupational licenses has increased by approximately six percent (6%) since the previous year.</p>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

ROZIER, HARRINGTON & McKAY

CERTIFIED PUBLIC ACCOUNTANTS

1407 PETERMAN DRIVE
ALEXANDRIA, LOUISIANA 71301

JOHN S. ROZIER, IV, C.P.A.
M. DALE HARRINGTON, C.P.A.
MARK S. MCKAY, C.P.A.
LEE W. WILLIS, C.P.A.
LAWRENCE E. MAYEAUX, C.P.A.

MAILING ADDRESS
POST OFFICE BOX 48
ALEXANDRIA, LOUISIANA 71301-0048
TELEPHONE (504) 442-6008
TELECOPIER (504) 442-2027

RECEIVED
LEGISLATIVE DIRECTOR
1999 DEC 30 PM 11:28

December 17, 1999

The Honorable Mayor and
Board of Aldermen
City of Pineville, Louisiana

In planning and performing our audit of the financial statements of the City of Pineville, Louisiana for the year ended June 30, 1999, we considered the City'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 City'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 City's audit report.

99-1, FINANCIAL REPORTING:

In order to properly administer City affairs, municipal officials need timely access to accurate financial information. Unfortunately, financial information available for the year ended June 30, 1999 was neither timely or accurate.

The City's books and records were made available to our staff on October 20, 1999. This delivery date allowed a period of almost four months for any necessary corrections or revisions to be recorded; however, numerous adjustments were needed after October 20, 1999 in order to properly present amounts reported in the City's accounting records. Some of the deficiencies that represent departures from the basic concepts of proper governmental bookkeeping are described as follows:

- Balances for cash held in bank accounts reported by the City's accounting records did not agree with the reconciled bank account balances. In some cases, substantial adjustments were needed in order to properly report cash balances.

-Members-

American Institute of Certified Public Accountants • Society of Louisiana, CPAs

- Interfund receivables and payables were not properly reported. In numerous cases, amounts reported as a receivable or payable by a particular fund did not agree with the corresponding payable or receivable reported on another fund.
- Interfund transfers were not properly reported. In numerous cases, amounts reported as a transfer in or transfer out by a particular fund did not agree with the corresponding transfer out or transfer in reported on another fund.
- A fundamental feature of proper bookkeeping requires accounting records to be in balance. This is accomplished by utilizing a double entry system that requires each entry to be accompanied by a corresponding offsetting entry; however, the City of Pineville did not completely utilize this concept. The general ledger delivered to our staff on October 20, 1999 was not in balance.

Since timely and accurate financial information is essential to the proper management of the City's affairs, the City needs to recruit personnel with an accounting background and begin producing the necessary information in a prompt manner.

99-2, PERSONNEL POLICY:

The City does not have a comprehensive personnel policy manual. Furthermore, existing personnel policies include vague terminology and ambiguous provisions that lead to difficulty in the application of these policies. Since the City employs in excess of two hundred (200) people a comprehensive personnel manual is a necessity. In addition, the personnel manual should clearly define the City's policy regarding personnel issues. A partial list of issues that should be addressed is provided as follows:

- Working conditions, including 1)attendance and timekeeping policies, 2)overtime policies, 3)observance of holidays, 4)employee evaluations, 5)disciplinary practices, etc.
- Compensation and benefits.
- Annual leave policies, including the amount of annual leave that may be carried forward to future periods and whether employees will be compensated for any unused annual leave upon termination.
- Sick and maternity leave policies, including details regarding correspondence that must be provided by the employees attending physician.
- Approved hiring practices.
- Standards of conduct.
- Grievance procedures.
- Travel and expense reimbursement policies.

In order to avoid confusion, the City's new personnel manual should be adopted by an ordinance that supersedes any previous personnel policies that have been approved by the City.

MATERIAL INSTANCES OF NONCOMPLIANCE

Certain instances on noncompliance with provisions of laws, regulations, contracts and grants could have a direct and material effect on the determination of financial statement amounts. As required by *Government Auditing Standards*, these material instances of noncompliance are also summarized in the schedule of findings and questioned cost appearing the City's audit report.

99-3, UNFAVORABLE BUDGET VARIANCES:

State Law requires the City to adopt a budget for the general fund and each special revenue fund. Furthermore, State Law imposes limits on unfavorable variances between actual results and budget projections. These limits are described as follows:

- Total projected revenue as presented in the budget may not exceed actual revenue by more than five percent (5%).
- Actual expenditures may not exceed projected expenditures as presented in the budget by more than five percent (5%).

For the year ending June 30, 1999, the City experienced unfavorable budget variances that exceeded the threshold imposed by State Law. The unfavorable budget variances are described as follows:

- **Dedicated 10 Mill Ad Valorem Tax** – Budgeted revenue exceeded actual revenue by an amount greater than five percent (5%) of budgeted revenue.
- **Special Economic Development Projects** - Budgeted revenue exceeded actual revenue by an amount greater than five percent (5%) of budgeted revenue. Furthermore, actual expenditures exceeded budgeted expenditures by an amount greater than five percent (5%) of budgeted expenditures.

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.

UTILITY USAGE:

In order to charge sewer customers in a manner that is consistent with their utilization of the system, sewer bills are typically based on water consumption. This process provides an equitable means of charging for sewer service because a large portion of the water delivered to a customer ultimately enters the wastewater treatment system.

The City has not billed all of its sewer customers in the manner described above. A portion of the City's sewer customers that are required to purchase water from another utility system have been charged at the standard flat rate. Customers in these areas have not been required to pay any of

the incremental sewer charges that are based on water consumption. In order to treat all sewer customers in an equitable manner and collect all revenue that the City is entitled to receive, arrangements should be made to bill each sewer customers based on water consumption.

The City has access to water consumption data related to sewer customers located outside of the City's water service area but computer modifications are needed in order to render bills that reflect water consumption. Modifications of this nature should be addressed promptly because a large portion of the City's commercial growth is located in the vicinity of Kings Country, which is served by another water system.

FIXED ASSET RECORDS:

State law and generally accepted accounting principals require the City to maintain a record of fixed assets including, equipment, land, buildings and improvements owned by the City. The City's fixed asset records are inadequate in several respects. In order to correct these inadequacies, we recommend completing the following task:

- Items with minimal cost or limited useful lives should be excluded from the fixed records. In the future only those items that cost at least \$1,000 should be added to the fixed asset records. Furthermore, items that are replaced frequently due to wear or obsolesce should be excluded from the fixed asset records. In addition, cost of repairs should not be reported as fixed assets unless the repairs are expected to significantly extend the useful life of a particular asset.
- The fixed asset records have not been updated to exclude items that are no longer in service. We suggest conducting a physical inventory and deleting any item that is no longer in operation.
- In order to facilitate the identification and location of City property, a tag or label should be applied to each movable item that appears on the fixed asset records. The tag or label should include a unique identifying number. The identifying number should also appear with the assets description on the fixed asset records.
- In the past the City has relied upon its auditor to maintain the fixed asset records; however, since City personnel are involved in the daily acquisition and disposal of fixed assets, they are in a better position to maintain the fixed asset records. The City has acquired the software necessary for maintaining fixed asset records and we recommend assigning City personnel to maintain these records.

APPROVAL OF DEBT:

State law requires political subdivisions to obtain approval from the State Bond Commission before executing any debt instrument with a term exceeding ninety (90) days. During the year ended June 30, 1999, the City apparently executed a debt instrument for the purpose of financing insurance premiums. Furthermore, this transaction was conducted without obtaining the necessary approval. In the future, management should avoid incurring debt unless the necessary approval has been granted.

HIGH VOLUME WATER RATES:

On June 8, 1999, the Mayor received authority from the City Council to negotiate utility rates with high volume users. Based on this authority, two contracts have been executed. A review of these contracts has identified the following matters of concern:

- The contracts were negotiated during the month of June, 1999 but the new preferred rates that were granted by the contract were made effective for the month of February, 1999. In order to retroactively implement the new rates, amounts previously billed under standard commercial rates were adjusted. The overall adjustment associated with retroactively implementing the contracts was approximately \$35,000.
- When the City Council granted authority to the mayor to negotiate contracts with high volume users, high volume usage was defined as average monthly water consumption of at least 1,000,000 gallons. Under the authority granted by the City Council, a high volume contract was granted to a property management firm. The contract applies to six residential rental properties located in various portions of the City. Only one of the properties covered by the contract experienced monthly usage in excess of 1,000,000 gallons.

According to the State Constitution, the City cannot legally loan, pledge, or donate anything of value to any person, association or corporation. The retroactive implementation of high volume utility rates may have violated this constitutional provision. We suggest obtaining a legal opinion that will clarify this issue before engaging in any further retroactive rate adjustments.

In addition, it appears that one of the high volume rate contracts may have been granted to a customer that did not meet the definition of high volume usage that was adopted by the City Council. Accordingly, it may be necessary for the City Council to reconsider the definition and adopt any necessary changes.

DEBT COVENANTS:

When the City issued utility revenue bonds, it agreed to establish a special bank account known as the "Capital Additions and Contingencies Fund". The purpose of the special account is to provide a source of funds for extensions, additions, improvements, renewals and replacements necessary to operate the Utility System.

Under the terms of the agreement, the City is required to deposit five percent (5%) of gross utility revenues into the Capital Additions and Contingencies Fund. The agreement also requires these deposits to be made on a monthly basis; however, during the year ended June 30, 1999 deposits were not made on a monthly basis. Instead, the account was funded by a lump sum deposit that represented required contributions for the preceding ten (10) months.

In the future, we recommend a conducting a comprehensive review of the City's bond agreements to ensure that the City complies with each covenant imposed by those agreements.

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

ROZIER, HARRINGTON & MCKAY,
Certified Public Accountants