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CITY OF PINEVILLE, LOUISIANA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 1998

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ROZIER, HARRINGTON & McKAY
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November 24, 1998

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, 1998, 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, 1998, 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 November 24, 1998, 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.

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

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November 24, 1998

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, 1998, and have issued our report thereon dated November 24, 1998. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 98-5, 98-6, and 98-7. We also note certain immaterial instances of noncompliance that we have reported to management in a separate letter dated November 24, 1998.

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 98-1, 98-2, 98-3, and 98-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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, we believe none of the reportable conditions described above is 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 November 24, 1998.

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

ROZIER, HARRINGTON & McKAY
Certified Public Accountants

CITY OF PINEVILLE

All Fund Types and Account Groups

Combined Balance Sheet

June 30, 1998

	Governmental Funds				Proprietary Funds		Account Group		
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Agency Funds	General Fixed Assets	General Long-term Debt	Total (Memorandum Only)
ASSETS									
Cash	$ 48,145	$ 441,062	$ 672,564	$ 552,295	$ 291,867	$ 4,623	$ -	$ -	$ 2,010,556
Receivables (net)	412,346	224,622	-	468,553	404,325	-	-	-	1,509,846
Interfund receivable	461,290	-	15,138	82,111	220,181	92,792	-	-	871,512
Other assets	6,095	-	-	-	3,745	-	-	-	9,840
Restricted cash	-	-	-	-	535,946	-	-	-	535,946
Land, buildings and equipment (net of accumulated depreciation)	-	-	-	-	15,296,290	-	5,503,955	-	20,800,245
Amount available in debt service funds	-	-	-	-	-	-	-	687,702	687,702
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	3,614,164	3,614,164
Total assets	$ 927,876	$ 665,684	$ 687,702	$ 1,102,959	$ 16,752,354	$ 97,415	$ 5,503,955	$ 4,301,866	$ 30,039,811

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE
All Fund Types and Account Groups

Combined Balance Sheet
June 30, 1998

LIABILITIES AND EQUITY	Governmental Funds: General Fund	Governmental Funds: Special Revenue Funds	Governmental Funds: Debt Service Funds	Governmental Funds: Capital Projects Funds	Proprietary Funds: Enterprise Funds	Agency Funds	Account Group: General Fixed Assets	Account Group: General Long-term Debt	Total (Memorandum Only)
LIABILITIES:									
Accounts and other payables	$ 252,159	$ -	$ -	$ 559,258	$ 68,617	$ 87,004	$ -	$ -	$ 967,038
Interfund payables	128,873	193,720	-	304,388	234,120	10,411	-	-	871,512
Deposits due others	-	-	-	-	240,534	-	-	-	240,534
Accrued interest	-	-	-	-	19,973	-	-	-	19,973
Judgement Payable	60,000	-	-	-	-	-	-	-	60,000
Certificates of Indebtedness	-	-	-	-	-	-	-	2,302,000	2,302,000
Revenue Bonds Payable	-	-	-	-	1,855,000	-	-	450,000	2,305,000
General Obligation Bonds Payable	-	-	-	-	-	-	-	1,340,000	1,340,000
Capital Lease Obligations	-	-	-	-	-	-	-	209,866	209,866
Total liabilities	441,032	193,720	-	863,646	2,418,244	97,415	-	4,301,866	8,315,923
EQUITY:									
Investment in general fixed assets	-	-	-	-	-	-	5,503,955	-	5,503,955
Contributed capital	-	-	-	-	13,939,275	-	-	-	13,939,275
Retained Earnings:									
Reserved by bond covenants	-	-	-	-	515,973	-	-	-	515,973
Unreserved	-	-	-	-	(121,138)	-	-	-	(121,138)
Fund Balances	486,844	471,964	687,702	239,313	-	-	-	-	1,885,823
Total equity	486,844	471,964	687,702	239,313	14,334,110	-	5,503,955	-	21,723,888
Total liabilities and equity	$ 927,876	$ 665,684	$ 687,702	$ 1,102,959	$ 16,752,354	$ 97,415	$ 5,503,955	$ 4,301,866	$ 30,039,811

The accompanying notes are an integral part of this statement.

CITY OF PINEVILLE

Governmental and Expendable Trust Funds

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 1998

	Governmental Funds				
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total (Memorandum Only)
REVENUES:					
Taxes:					
Ad valorem	$ 262,472	$ 444,868	$ 177,947	$ -	$ 885,287
Sales	2,796,363	2,022,242	-	-	4,818,605
Licenses and permits					
Franchise fees	490,983	-	-	-	490,983
Occupational licenses	337,512	-	-	-	337,512
Other	70,382	-	-	-	70,382
Intergovernmental	294,605	120,500	-	650,582	1,065,687
Sanitation fees	391,674	-	-	-	391,674
Fines and forfeitures	71,861	-	-	-	71,861
Other	177,689	26,918	33,629	42,595	280,831
Total revenues	4,893,541	2,614,528	211,576	693,177	8,412,822
EXPENDITURES:					
Current:					
General government:					
Judicial	175,642	-	-	-	175,642
Executive	130,501	-	-	-	130,501
Finance & Administrative	1,110,633	4,323	4,109	-	1,119,065
Public safety	2,641,511	-	-	-	2,641,511
Public works	2,222,695	-	-	-	2,222,695
Health & Welfare	100,068	-	-	-	100,068
Culture & Recreation	311,409	-	-	-	311,409
Capital Expenditures	-	-	-	2,303,682	2,303,682
Debt Service	224,825	-	707,135	-	931,960
Total expenditures	6,917,284	4,323	711,244	2,303,682	9,936,533
Excess (deficiency) of revenues over expenditures	(2,023,743)	2,610,205	(499,668)	(1,610,505)	(1,523,711)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	1,541,324	-	552,394	905,221	2,998,939
Operating transfers out	(278,837)	(2,442,444)	-	(141,477)	(2,862,758)
Proceeds from long-term debt	193,140	-	-	-	193,140
Excess (deficiency) of revenues and other sources over expenditures and other uses	(568,116)	167,761	52,726	(846,761)	(1,194,390)
Fund balance (deficit) - beginning of year:					
As originally stated	1,260,013	-	634,976	1,205,576	3,100,565
Prior period adjustments	(205,053)	304,203	-	(119,502)	(20,352)
As restated	1,054,960	304,203	634,976	1,086,074	3,080,213
Fund balance (deficit) - end of year	$ 486,844	$ 471,964	$ 687,702	$ 239,313	$ 1,885,823

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, 1998

	General Fund			Special Revenue Funds		
	Amended Budget	Actual	Variance Favorable (Unfavorable)	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes:						
Ad valorem	$ 706,900	$ 262,472	$ (444,428)	$ -	$ 444,868	$ 444,868
Sales	750,000	2,796,363	2,046,363	4,200,000	2,022,242	(2,177,758)
Licenses and permits						
Franchise fees	500,000	490,983	(9,017)	-	-	-
Occupational licenses	350,000	337,512	(12,488)	-	-	-
Other	68,400	70,382	1,982	-	-	-
Intergovernmental	276,300	294,605	18,305	-	120,500	120,500
Sanitation fees	390,000	391,674	1,674	-	-	-
Fines and forfeitures	65,200	71,861	6,661	-	-	-
Other	111,200	177,689	66,489	-	26,918	26,918
Total revenues	3,218,000	4,893,541	1,675,541	4,200,000	2,614,528	(1,585,472)
EXPENDITURES:						
Current:						
General government	1,522,400	1,416,776	105,624	-	4,323	(4,323)
Public safety	2,418,000	2,641,511	(223,511)	-	-	-
Public works	2,056,300	2,222,695	(166,395)	-	-	-
Health & Welfare	99,300	100,068	(768)	-	-	-
Culture & Recreation	292,500	311,409	(18,909)	-	-	-
Debt Service	-	224,825	(224,825)	-	-	-
Total expenditures	6,388,500	6,917,284	(528,784)	-	4,323	(4,323)
Excess (deficiency) of revenues over expenditures	(3,170,500)	(2,023,743)	1,146,757	4,200,000	2,610,205	(1,589,795)
OTHER FINANCING SOURCES (USES):						
Operating transfers in	3,185,300	1,541,324	(1,643,976)	-	-	-
Operating transfers out	-	(278,837)	(278,837)	(4,200,000)	(2,442,444)	1,757,556
Proceeds from long-term debt	-	193,140	193,140	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	14,800	(568,116)	(582,916)	-	167,761	167,761
Fund balance (deficit) - beginning of year:						
As originally stated	1,260,013	1,260,013	-	-	-	-
Prior period adjustments	(205,053)	(205,053)	-	-	304,203	304,203
As restated	1,054,960	1,054,960	-	-	304,203	304,203
Fund balance (deficit) - end of year	$ 1,069,760	$ 486,844	$ (582,916)	$ -	$ 471,964	$ 471,964

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, 1998

OPERATING REVENUES:	
Utility revenue	1,722,890
Other	124,106
Total operating revenues	1,846,996
OPERATING EXPENSES:	
Salaries	662,522
Bad debts	30,564
Legal and professional	69,580
Repairs and maintenance	154,247
Supplies and chemicals	142,181
Employee benefits	249,106
Utilities	318,081
Permits and testing	20,676
Depreciation	421,025
Other	104,091
Total operating expenses	2,172,073
Operating income (loss)	(325,077)
NONOPERATING REVENUES (EXPENSES):	
Interest revenue	49,833
Interest expense	(124,120)
Net income (loss) before operating transfers	(399,364)
Operating transfers in (out)	(136,180)
Net income (loss)	(535,544)
Retained earnings - beginning of year:	
As originally stated	886,228
Prior period adjustment	44,151
As restated	930,379
Retained earnings - end of year	$ 394,835

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, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	$ (325,077)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	421,025
(Increase) decrease in receivable	(91,093)
(Increase) decrease in other assets	(2,660)
Increase (decrease) in accounts and other payables	(51,282)
Increase (decrease) in deposits due others	17,838
Net cash provided (used) by operating activities	(31,249)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating transfers	(136,180)
Net cash provided (used) by non-capital financing activities	(136,180)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid on revenue bonds	(124,977)
Capital expenditures	(126,655)
Principal paid on revenue bonds	(50,000)
Net cash provided (used) by capital and related financing activities	(301,632)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	49,833
Net cash provided (used) by capital and related financing activities	49,833
Net increase (decrease) in cash	(419,228)
Beginning cash balance	1,247,041
Ending cash balance	827,813
Restricted cash balance	535,946
Unrestricted cash balance	$ 291,867

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 $1,514,326 and $220,761, respectively.

The accompanying notes are an integral part of this statement.

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 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.

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.

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 (enterprise) 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.

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 fund general 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 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, 1998 are summarized as follows:

	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds
Accounts Receivable				
Utility Accounts	$ ----	$ ----	$ ----	$ 434,889
Ad Valorem Taxes	----	49,592	----	----
Franchise Taxes	62,613	----	----	----
Other	39,911	----	----	----
Total Accounts Receivable	102,524	49,592	----	434,889
Due From Other Governmental Units				
Sales Taxes	250,237	190,041	----	----
Louisiana Community Development Block Grant	----	----	253,447	----
Louisiana Department of Transportation and Development	----	----	215,106	----
Other	59,585	34,581	----	----
Total Due From Other Governments	309,822	224,622	468,553	----
Total Receivables	412,346	274,214	468,553	434,889
Allowance for Doubtful Accounts	----	(49,592)	----	(30,564)

	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds
Net Receivables	$ 412,346	$ 224,622	$ 468,553	$ 404,325

NOTE 3 - CASH AND CASH EQUIVALENTS

These 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, 1998, the City has $2,702,338 in deposits (collected bank balance). These deposits are secured from risk by $500,000 of federal deposit insurance and $4,495,050 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:

	Proprietary Fund Obligations	General Long-term Debt	Total
Certificates of Indebtedness	$ ----	$ 2,302,000	$ 2,302,000
Revenue Bonds	1,855,000	450,000	2,305,000
General Obligation Bonds	----	1,340,000	1,340,000
Capital Leases	----	209,866	209,866
Total	$ 1,855,000	$ 4,301,866	$ 6,156,866

Changes in the City's general long-term debt for the year ended June 30, 1998 are presented as follows:

	Beginning Balance	Debt Issued	Debt Retired	Ending Balance
Certificates of Indebtedness	$ 2,495,000	$ ----	$ 193,000	$ 2,302,000
Revenue Bonds	575,000	----	125,000	450,000
General Obligations	1,410,000	----	70,000	1,340,000
Capital Leases	229,006	193,140	212,280	209,866
Total general long-term debt	$ 4,709,006	$ 193,140	$ 600,280	$ 4,301,866

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, 1998 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.	$ 1,719,000
$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.	583,000
Total Certificates of Indebtedness	$ 2,302,000

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, 1998 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 1st 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.	$ 870,000

$1,100,000 Utilities Revenue Bonds, Series 1991 dated November 1, 1991 bearing interest at rates ranging from 6% to 10% depending on the

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.	985,000
$ 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.	450,000
Total Revenue Bonds	$ 2,305,000

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, 1998 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.	$ 1,340,000
Total General Obligations	$ 1,340,000

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 the original cost of $361,268. Capital lease obligations outstanding at June 30, 1998 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	$ 18,227

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.	15,088
Lease agreement dated September, 1992, executed in exchange for a 1993 International Model 4600 with accessories, with an original balance of $43,873, bearing interest at a rate of 5.3%, payable in 60 monthly installments of $830.	1,648
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.	35,728
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.	139,175
Total Capital lease obligations	$ 209,866

Maturity of Long-term Debt

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

Year Ended June 30th	Proprietary Fund Obligations	General Long-term Debt	Total
1999	$ 55,000	$ 419,000	$ 474,000
2000	60,000	441,000	501,000
2001	60,000	474,000	534,000
2002	65,000	358,000	423,000
2003	70,000	384,000	454,000
Thereafter	1,545,000	2,016,000	3,561,000
Total	$ 1,855,000	$ 4,092,000	$ 5,947,000

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

Year Ended June 30th	
1999	$ 137,787
2000	70,892
2001	12,614
Total minimum lease payments	221,293
Amounts representing interest	(11,427)
Present value of minimum lease payments	$ 209,866

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, 1998, the City has levied ad valorem taxes as follows:

Description	Mills Levied
Levied for general alimony as permitted by State Law. Revenue from taxes levied for general alimony is reported by the general fund.	5.9
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.	10.0
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.	4.1
	20.0

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:

Description	Percentage Levied
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:

	Beginning Balance	Additions	Disposals	Ending Balance
Land, Buildings & Improvements	$ 2,425,616	$ 12,500	$ ----	$ 2,438,116
Furniture, Fixtures and Equipment	2,742,212	323,627	----	3,065,839
Total General Fixed Assets	$ 5,167,828	$ 336,127	$ ----	$ 5,503,955

A summary of the property and equipment at June 30, 1998 consists of the following:

Utility System	$ 19,567,695
Equipment	580,785
Municipal Airport Improvements	23,051
Construction in Progress	776,102
Total	20,947,633

Less Accumulated Depreciation	(5,651,343)
Net Property and Equipment	$ 15,296,290

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 participating a public entity risk pool that operates as a common insurance program and by purchasing commercial insurance. Settled claims resulting from these risk have not exceeded insurance coverage in any of the past three fiscal years.

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:

	Beginning Balance	Additions	Disposals	Ending Balance
Utility Fund	$ 12,049,258	$ 1,669,300	$ ----	$ 13,718,558
Airport Fund	2,771	217,946	----	220,717
Total	$ 12,052,029	$ 1,887,246	$ ----	$ 13,939,275

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 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 (504) 925-4810.

Funding Policy - Under Plan B, members are required by state statute to contribute 5.0 percent of their annual covered salary and the 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.

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 (504) 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.

<u>Municipal Police Employees Retirement System of Louisiana</u>

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 no 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 (504) 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 current rate is 9.0 percent of annual covered payroll. 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:

	Interfund Receivables	Interfund Payables
General Fund	$ 461,290	$ 128,873
Special Revenue Funds:		
Dedicated 1% Sales Tax Fund	----	190,041
Dedicated 10 Mill Ad Valorem Tax Fund	----	3,679
Debt Service Funds:		
Public Improvement Sales Tax Bond Fund	12,909	----
General Obligation Bonds Series A-E Fund	2,229	----
Capital Projects Funds:		
Capital Improvements Fund	82,111	304,388
Enterprise Funds:		
Utility Fund	179,398	229,322
Municipal Airport Fund	40,783	4,798
Agency Fund (Payroll)	92,792	10,411
	$ 871,512	$ 871,512

NOTE 12 – CONTINGENCIES:

Existing conditions that may have financial consequences are referred to as contingencies. Contingencies existing at June 30, 1998 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 that 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.

Wastewater Treatment:

The Environmental Protection Agency (EPA) has notified the City that effluent discharge from its wastewater treatment plant has failed to meet conditions of the City's N.P.D.E.S permit. If the City's plant continues to experience permit excursions, it could be subject to severe monetary penalties. The City has responded to this matter by installing additional sewage treatment equipment and constructing a chlorine contact chamber. These improvements are expected to enhance the City's ability to meet their permit limits. Due to the improvements made to the wastewater treatment plant, the City is confident that penalties will be avoided. Accordingly, the accompanying financial statements do not include a provision for any financial consequences that may result from this matter.

NOTE 13 – COMMITMENTS:

Commitments are contractual obligations to engage in future expenditures. Commitments at year end consist entirely of obligations imposed by construction contracts. Furthermore, the State has agreed to share the cost of fulfilling a portion of these commitments. A summary of commitments and cost sharing arrangements with the State is provided as follows:

	Unexpended Balance	State Participation	City's Commitment
Utility System Improvements	$ 650,264	$ 530,867	$ 119,397
Airport Improvements	65,980	47,454	18,526
Street Improvements	210,818	159,440	51,378
Recreation Facility Improvements	8,343	----	8,343
Totals	$ 935,405	$ 737,761	$ 197,644

NOTE 14 – PRIOR PERIOD ADJUSTMENTS:

Certain errors resulted in misstatement of equity as reported in the previously issued financial statements. Adjustments necessary to correct these errors are summarized as follows:

	General Fund	Special Revenue Funds	Capital Project Funds	Proprietary Funds Retained Earnings	Proprietary Funds Contributed Capital
As originally stated	$ 1,260,013	$ ----	$ 1,205,576	$ 886,228	$ 12,252,684
Prior period adjustments:					
Economic development funds	----	119,502	(119,502)	----	----
Dedicated Property Taxes	(184,701)	184,701	----	----	----
Unbilled accounts receivable	25,592	----	----	145,020	----
Accrued payroll expenses	(57,802)	----	----	----	----

	General Fund	Special Revenue Funds	Capital Project Funds	Proprietary Funds Retained Earnings	Proprietary Funds Contributed Capital
Accounts payable	71,858	---	---	---	---
Judgment Payable	(60,000)	---	---	---	---
Fixed assets	---	---	---	(100,869)	(200,655)
As restated	$ 1,054,960	$ 304,203	$ 1,086,074	$ 930,379	$ 12,052,029

Economic Development Funds:

The City received an annual appropriation from the State of Louisiana. The funds provided by this appropriation are restricted for the economic development expenditures. These fund were previously reported capital projects funds; however, since these funds may be used for economic development purchases that do not involve capital expenditures the previous presentation was considered erroneous.

Dedicated Property Taxes:

As described previously, the City collects a 10 mill property tax that is dedicated to salaries for law enforcement officers and fire personnel. Proceeds from this tax were invested in a certificate of deposit, but the investment was presented as part of the general fund. Reporting funds from a dedicated source as part of the general fund was considered erroneous.

Unbilled Accounts Receivable:

The City provides sanitation and utility services that are billed after the service provided. For the previous year, no provision was made for reporting revenue from services that were delivered during the previous period but billed during the current period.

Accounts Payable:

For the previous year, accounts payable erroneously included certain items that were considered expenditures of the current period.

Judgment Payable:

To record the City's obligation to pay a judgment that was awarded during a previous year as a result of litigation against the City.

Fixed Assets:

For the previous year, certain amounts were erroneously reported as fixed asset additions. A prior period adjustment was needed to correctly report fixed assets.

CITY OF PINEVILLE

General Fund

Statement of Expenditures by Department
For the Year Ending June 30, 1998

	General Government							
	Judicial	Executive	Finance & Administrative	Public Safety	Public Works	Health & Welfare	Culture & Recreation	Total
DEPARTMENT:								
City Shop	-	-	-	-	161,433	-	-	161,433
Police	-	-	-	1,603,122	-	-	-	1,603,122
City Court	133,897	-	-	-	-	-	-	133,897
Impounding	-	-	-	-	-	100,068	-	100,068
Fire	-	-	-	1,038,389	-	-	-	1,038,389
Recreation	-	-	-	-	-	-	153,896	153,896
City Marshall	41,745	-	-	-	-	-	-	41,745
Administration	-	-	1,110,633	-	-	-	-	1,110,633
Executive	-	130,501	-	-	-	-	-	130,501
Street Maintenance	-	-	-	-	587,351	-	-	587,351
Drainage Maintenance	-	-	-	-	284,665	-	-	284,665
Garbage Collection	-	-	-	-	641,149	-	-	641,149
Trash Removal	-	-	-	-	420,632	-	-	420,632
Community Centers	-	-	-	-	-	-	157,513	157,513
Buildings Maintenance	-	-	-	-	127,465	-	-	127,465
Total Expenditures	175,642	130,501	1,110,633	2,641,511	2,222,695	100,068	311,409	6,692,459

CITY OF PINEVILLE

Special Revenue Funds

Combining Balance Sheet
June 30, 1998

	Dedicated 1% Sales Tax	Dedicated 10 Mill Ad Valorem Tax	Special Economic Development Projects	Total
ASSETS				
Cash	$ -	$ 229,037	$ 212,025	$ 441,062
Receivables	190,041	35	34,546	224,622
Interfund receivable	-	-	-	-
Total revenues	$ 190,041	$ 229,072	$ 246,571	$ 665,684
LIABILITIES AND EQUITY				
LIABILITIES:				
Accounts and other payables	$ -	$ -	$ -	$ -
Interfund payables	190,041	3,679	-	193,720
Total Liabilities	190,041	3,679	-	193,720
EQUITY:				
Fund Balance, Unreserved	-	225,393	246,571	471,964
Total liabilities and equity	$ 190,041	$ 229,072	$ 246,571	$ 665,684

CITY OF PINEVILLE

Special Revenue Funds

Combining Statement of Revenues and Expenditures
For the Year Ended June 30, 1998

	Dedicated 1% Sales Tax	Dedicated 10 Mill Ad Valorem Tax	Special Economic Development Projects	Total
REVENUES:				
Taxes:				
Ad valorem	$ -	$ 444,868	$ -	$ 444,868
Sales	2,022,242	-	-	2,022,242
Intergovernmental	-	-	120,500	120,500
Other	-	20,147	6,771	26,918
Total revenues	2,022,242	465,015	127,271	2,614,528
EXPENDITURES:				
General Government				
Finance and Administration	-	4,323	-	4,323
Total expenditures	-	4,323	-	4,323
Excess (deficiency) of revenues over expenditures	2,022,242	460,692	127,271	2,610,205
OTHER FINANCING SOURCES (USES):				
Operating transfers out				
To General Fund	(1,011,121)	(420,000)	(202)	(1,431,323)
To Capital Improvements Fund	(854,924)	-	-	(854,924)
To Sales Tax Bond Debt Service	(156,197)	-	-	(156,197)
Total operating transfers in	(2,022,242)	(420,000)	(202)	(2,442,444)
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ 40,692	$ 127,069	$ 167,761

CITY OF PINEVILLE
Debt Service Funds

Combining Balance Sheet
June 30, 1998

	Public Improvement Sales Tax Bonds	General Obligation Bonds Series 1991 A-E	Certificate of Indebtedness Series 1995	Certificate of Indebtedness Series 1997	Total
ASSETS					
Cash	$ 350,950	$ 80,599	$ 211,027	$ 29,988	$ 672,564
Interfund receivable	12,909	2,229	-	-	15,138
Total revenues	$ 363,859	$ 82,828	$ 211,027	$ 29,988	$ 687,702
LIABILITIES AND EQUITY					
LIABILITIES:					
Accounts and other payables	$ -	$ -	$ -	$ -	$ -
Interfund payables	-	-	-	-	-
Total Liabilities	-	-	-	-	-
EQUITY:					
Fund Balance, Unreserved	363,859	82,828	211,027	29,988	687,702
Total liabilities and equity	$ 363,859	$ 82,828	$ 211,027	$ 29,988	$ 687,702

CITY OF PINEVILLE

Debt Service Funds

Combining Statement of Revenues and Expenditures
For the Year Ended June 30, 1998

	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	$ -	$ 177,947	$ -	$ -	$ 177,947
Other	14,807	11,442	6,441	939	33,629
Total revenues	14,807	189,389	6,441	939	211,576
EXPENDITURES:					
Finance & Administration	992	3,117	-	-	4,109
Debt Service:					
Principle	125,000	70,000	146,000	47,000	388,000
Interest	41,000	101,560	152,320	24,255	319,135
Total expenditures	166,992	174,677	298,320	71,255	711,244
Excess (deficiency) of revenues over expenditures	(152,185)	14,712	(291,879)	(70,316)	(499,668)
OTHER FINANCING SOURCES (USES):					
Operating transfers in:					
From General Fund	-	-	230,837	-	230,837
From Dedicated 1% Sales Tax Fund	156,197	-	-	-	156,197
From Capital Improvement Fund	-	-	-	91,180	91,180
From Utility Fund	-	-	74,180	-	74,180
Total operating transfers in	156,197	-	305,017	91,180	552,394
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ 4,012	$ 14,712	$ 13,138	$ 20,864	$ 52,726

CITY OF PINEVILLE

Capital Project Funds

Combining Balance Sheet
June 30, 1998

	Capital Improvements	Urban Systems	Louisiana Community Development Block Grant	Sunnyhill Construction Project	Total
ASSETS					
Cash	$ 441,556	$ -	$ -	$ 110,739	$ 552,295
Receivables	215,106	-	253,447	-	468,553
Interfund receivable	82,111	-	-	-	82,111
Total revenues	$ 738,773	$ -	$ 253,447	$ 110,739	$ 1,102,959
LIABILITIES AND EQUITY					
LIABILITIES:					
Accounts and other payables	$ 305,811	$ -	$ 253,447	$ -	$ 559,258
Interfund payables	304,388	-	-	-	304,388
Total Liabilities	610,199	-	253,447	-	863,646
EQUITY:					
Fund Balance, Unreserved	128,574	-	-	110,739	239,313
Total liabilities and equity	$ 738,773	$ -	$ 253,447	$ 110,739	$ 1,102,959

CITY OF PINEVILLE

Capital Project Funds

Combining Statement of Revenues and Expenditures
For the Year Ended June 30, 1998

	Capital Improvements	Urban Systems	Louisiana Community Development Block Grant	Sunnyhill Construction Project	Total
REVENUES:					
Intergovernmental	$ 320,282	$ 9,839	$ 320,461	$ -	$ 650,582
Other	34,844	-	-	7,751	42,595
Total revenues	355,126	9,839	320,461	7,751	693,177
EXPENDITURES:					
Capital Expenditures					
Street and sidewalk improvements	330,763	47,356	-	-	378,119
Utility system improvements	750,053	-	333,241	431,032	1,514,326
Recreation facilities	71,090	-	-	-	71,090
Airport improvements	220,761	-	-	-	220,761
Drainage improvements	12,018	-	-	-	12,018
Construction equipment	72,094	-	-	-	72,094
Miscellaneous	35,274	-	-	-	35,274
Total expenditures	1,492,053	47,356	333,241	431,032	2,303,682
Excess (deficiency) of revenues over expenditures	(1,136,927)	(37,517)	(12,780)	(423,281)	(1,610,505)
OTHER FINANCING SOURCES (USES):					
Operating transfers in:					
From Capital Improvements Fund	-	37,517	12,780	-	50,297
From Dedicated 1% Sales Tax Fund	854,924	-	-	-	854,924
Total transfers in	854,924	37,517	12,780	-	905,221
Operating transfers out:					
To Urban Systems Fund	(37,517)	-	-	-	(37,517)
To Louisiana Community Development Block Grant Fund	(12,780)	-	-	-	(12,780)
To Certificate of Indebtedness Series 1997 Debt Service Fund	(91,180)	-	-	-	(91,180)
Total transfers out	(141,477)	-	-	-	(141,477)
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ (423,480)	$ -	$ -	$ (423,281)	$ (846,761)

CITY OF PINEVILLE

Proprietary Funds

Combining Balance Sheet
June 30, 1998

	Utility System	Municipal Airport	Total
ASSETS			
Cash	$ 289,965	$ 1,902	$ 291,867
Receivables	404,325	-	404,325
Interfund receivable	179,398	40,783	220,181
Other assets	1,975	1,770	3,745
Restricted cash	535,946	-	535,946
Land, buildings and equipment (net of accumulated depreciation)	15,074,292	221,998	15,296,290
Total revenues	$ 16,485,901	$ 266,453	$ 16,752,354
LIABILITIES AND EQUITY			
LIABILITIES:			
Accounts and other payables	$ 67,667	$ 950	$ 68,617
Interfund payables	229,322	4,798	234,120
Deposits due others	240,534	-	240,534
Accrued interest payable from restricted assets	19,973	-	19,973
Revenue bonds payable	1,855,000	-	1,855,000
Total Liabilities	2,412,496	5,748	2,418,244
EQUITY:			
Contributed Capital	13,718,558	220,717	13,939,275
Retained Earnings:			
Reserved by bond covenants	515,973	-	515,973
Unreserved	(161,126)	39,988	(121,138)
Total Equity	14,073,405	260,705	14,334,110
Total liabilities and equity	$ 16,485,901	$ 266,453	$ 16,752,354

CITY OF PINEVILLE

Proprietary Funds

Combined Statement of Revenue and Expenses
For the Year Ended June 30, 1998

	Utility System	Municipal Airport	Total
OPERATING REVENUES:			
Utility Service	1,722,890	-	1,722,890
Other	111,555	12,551	124,106
Total operating revenues	1,834,445	12,551	1,846,996
OPERATING EXPENSES:			
Salaries	638,111	24,411	662,522
Bad debts	30,564	-	30,564
Legal and professional	66,777	2,803	69,580
Repairs and maintenance	151,216	3,031	154,247
Supplies and chemicals	136,669	5,512	142,181
Employee benefits	238,481	10,625	249,106
Utilities	313,716	4,365	318,081
Permits and testing	20,676	-	20,676
Depreciation	420,371	654	421,025
Other	97,091	7,000	104,091
Total operating expenses	2,113,672	58,401	2,172,073
Operating income (loss)	(279,227)	(45,850)	(325,077)
NONOPERATING REVENUES (EXPENSES):			
Interest revenue	49,833	-	49,833
Interest expense	(124,120)	-	(124,120)
Net income (loss) before operating transfers	(353,514)	(45,850)	(399,364)
Operating transfers in (out):			
(To) From General Fund	(110,000)	48,000	(62,000)
(To) From Debt Service (Series 1995)	(74,180)	-	(74,180)
Total Operating Transfers	(184,180)	48,000	(136,180)
Net income (loss)	$ (537,694)	$ 2,150	$ (535,544)

CITY OF PINEVILLE

Utility System Fund

Statement of Expenses by Department
For the Year Ended June 30, 1998

	Water Lines	Water Wells	Sewer Lines	Sewer Pumps	Administration	Sewer Treatment	Other	Total
OPERATING EXPENSES:								
Salaries	234,654	119,323	87,491	89,273	55,204	52,166	-	638,111
Bad debts	-	-	-	-	30,564	-	-	30,564
Legal and professional	-	-	10,556	-	56,221	-	-	66,777
Repairs and maintenance	43,594	20,989	22,654	52,349	-	11,630	-	151,216
Supplies and chemicals	33,516	25,482	9,477	9,284	13,278	45,632	-	136,669
Employee benefits	88,224	48,938	28,240	34,761	18,259	20,059	-	238,481
Utilities	-	176,781	-	64,443	-	72,492	-	313,716
Permits and testing	-	-	-	-	-	20,676	-	20,676
Depreciation	-	-	-	-	-	-	420,371	420,371
Other	16,523	18,874	18,724	14,799	12,940	15,231	-	97,091
Total operating expenses	416,511	410,387	177,142	264,909	186,466	237,886	420,371	2,113,672

CITY OF PINEVILLE

Schedule of Compensation Paid to Board Members
For the year ended June 30, 1998

Fred Baden, Mayor	71,596
Lemon Coleman	7,400
George Hearn	7,400
Charles O'Banion	7,400
Jack Wainwright	7,400
Lee Broussard	7,400
Total Compensation	108,596

CITY OF PINEVILLE

Schedule of Expenditure of Federal Financial Awards
For the year ended June 30, 1998

FEDERAL GRANTOR / Pass-through Grantor / Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Pass-through State of Louisiana, Division of Administration		
Community Development Block Grants	14.228	$ 320,461
DEPARTMENT OF TRANSPORTATION:		
Pass through State of Louisiana, Department of Transportation and Development		
Highway Planning and Construction	20.205	$ 70,176

Note

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

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November 24, 1998

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, 1998. 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, 1998.

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

ROZIER, HARRINGTON & McKAY
Certified Public Accountants

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, 1998 and for the year then ended expressed a qualified opinion.
- Reportable conditions were noted in the audit and none of the reportable conditions were considered to be material weaknesses.
- The results of the audit disclosed instances of noncompliance that are considered to be materiel 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, 1998 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:

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 that do not involve capital improvements. In the future, dedicated funds should not be used for any 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. Several conditions that result from inadequate personnel policies are listed as follows:

- It has been possible for certain employees to remain on fully compensated sick leave for indefinite periods of time without providing medical justification.
- Upon expiration of the former mayor's term, he was compensated for approximately ten weeks of accrued leave; however, we were unable to identify any specific policy permitting such payments.
- State law requires policies involving compensation of elected officials to be adopted in the form of an ordinance, but the City's policy was adopted by resolution.
- Aldermen received payments in addition to their regular compensation for attending special meetings; however, existing personnel policy does not address or specifically permit payments of this nature.
- The existing salary resolution requires annual adjustments based on an index published by the Social Security Administration. Assuming the City intends to continue granting automatic pay increases, a means of funding these increases should be established. If resources to fund the automatic increases cannot be identified, the City should consider revising its policy to provide for discretionary pay raises rather than mandatory pay raises.

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. 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.

98-3, Cash Disbursements:

During the course of our audit, we observed certain conditions involving the processing of cash disbursements. Our observations and recommendations for improvement are described as follows:

- Blank checks are stored in the City's vault; however, this area is only secure at night. In order to properly safeguard blank checks, these items should be stored in a location that remains secure at all times. Access to this location should be limited to personnel that are responsible for preparing checks.
- Due to the large volume of disbursements processed by the City, only checks bearing larger dollar amounts are signed by hand. The remaining items are stamped with a facsimile of the authorized signatures. In order to avoid unauthorized use of the signature stamps, access to these devices should be strictly limited to the person who's signature is produced by the devise.
- Individuals that are responsible for recording cash disbursements and reconciling bank accounts are currently authorized to sign checks. Allowing a single person to execute, record and reconcile cash transactions is not a

desirable practice. In the future, individuals with access to the general ledger or the bank statements should be prohibited from signing checks.

98-4, Segregation of Duties:

Segregation of duties involves arranging employee responsibilities in a manner where no single employee has access to both physical assets and the related accounting records. Duties are arranged in this manner so that it will be impossible for an employee to misuse City resources and then conceal the misuse by manipulating the accounting records.

Currently, administrative personnel responsible for signing 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, we 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.

98-5, Administration of Public Funds:

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. Transactions that represent apparent violations of these constitutional provisions are listed as follows:

- The City has given surplus vehicles to other municipalities and organizations.
- The City has provided financial support for various civic organizations that provided no consideration in exchange for the support.
- Employees that were unable to work were allowed receive regular payroll checks in exchange for reimbursing the City when their workers compensation benefits arrived.
- Numerous employees received year end bonuses, which were referred to a incentive pay.

Management can avoid future violations of this nature by becoming familiar with Article 7, Paragraph 14 of the Louisiana Constitution. Any transactions that might potentially violate these constitutional provisions should be referred to legal council.

98-6, Budgeting:

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.

98-7, Restrictive Covenants:

The City has issued utility revenue bonds in order to finance improvements to the utility system. As part of its agreement with the bondholders, the City has entered into various obligations that require the utility system to be operated in a specific manner. These obligations are referred to as restrictive covenants. In the course of performing the audit, it was determined some of the restrictive covenants have been violated. The violations are summarized as follows:

- Bond agreements require all officers and employees who may be in a position of authority or in possession of money derived form the operation of the utility system shall be covered by a fidelity bond. The only employ covered by a fidelity bond is the City Clerk; however, this bond provides only $10,000 in coverage. In order to comply with restrictive covenants, the amount of coverage should be increased. Furthermore, coverage should be extended to all officers and employees who may be in a position of authority.
- Bond agreements define all charges not paid within 15 days of billing to be delinquent. In addition the agreements require services to be terminated if payment is not made within 10 days of becoming delinquent. These covenants have not been observed. In practice, service has not been terminated until delinquent charges exceed the customers deposit. As a result, the City has incurred losses for uncollectable utility charges. Furthermore, certain sewer customers that do not purchase water from the City have continued to receive serve years after their last payment has been rendered. In one instance, a sewer customer that is charged $10.00 per month is approximately $500 in arrears.
- Bond agreements require all utility usage to be metered, but the results of the audit indicate that a large portion of the City's water meters were not in working order.
- Bond agreements require the City to charge and collect rates for utility services that are sufficient to pay necessary expenses of administering, operating and maintaining the utility system. In addition, the rate structure must provide sufficient income to meet principal and interest maturing on the utility revenue bonds. Since the utility fund has reported net losses for the most recent fiscal year, current utility rates are clearly inadequate based on criteria applied by restrictive covenants.

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

- None

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

FINDINGS	RESPONSE
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.	**98-1, Dedicated Sales Taxes:** The City intends to obtain guidance from legal counsel regarding appropriate uses for dedicated sales taxes. Future expenditures will be completed in accordance with the guidance offered by legal counsel.
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.	**98-2, Personnel Policy:** The City is currently studying personnel policy manuals that are used by municipalities that function in a manner similar to the operation of Pineville. When this process is complete, we will use the knowledge gained from the study to prepare a comprehensive policy manual for the City of Pineville.
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.	**98-3, Cash Disbursements:** In order to alleviate problems associated with the City's cash disbursement system, management expects to implement the following improvements: • A secure storage compartment will be used exclusively for storing blank checks. Access will be limited to people responsible for preparing checks. • Existing check signing devices will be replaced with a new device that cannot be operated without a key. Access to keys will be limited to persons authorized to sign checks. • Employees of the finance department will be removed from the City's signature card.
98-4, Segregation of Duties: Currently, administrative personnel responsible for signing checks and collecting cash payments have complete access to the City's computerized record keeping system. In the future,	**98-4, Segregation of Duties:** The City intends to restructure its administrative operations in a manner that will permit proper segregation of duties. In general, access to the City's financial resources will be limited

employees with access to financial resources should have very limited access to the financial records. Furthermore, RH&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.	to employees supervised by the City Clerk and access to financial records will be limited to employees assigned to the Director of Finance. To the maximum extent possible, no single employee will have access to both financial resources and the related accounting records.

SECTION II
INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

FINDINGS	RESPONSE
98-5, Administration of Public Funds: 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.	**98-5, Administration of Public Funds:** Management has gained a working knowledge of the requirements imposed by Article 7, Paragraph 14 of the Louisiana Constitution. Furthermore, any transactions that may represent potential violations will be referred to legal counsel.
98-6, Budgeting: 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.	**98-6, Budgeting:** In the future, the City plans to avoid unfavorable budget variances by carefully monitoring revenue and expenditures. If unfavorable variances are expected, proposed budget amendments will be submitted to the City Council for approval.
98-7, Restrictive Covenants: 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. • 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. • Adopt a rate structure that will provide sufficient income to operate the utility system and repay utility revenue bonds.	**98-7, Restrictive Covenants:** Corrective action taken in response to violation of restrictive covenants is summarized as follows: • Fidelity bond coverage has been obtained for each employee that has access to the City's financial resources. • The City is enforcing the cutoff policy mandated by the bond agreement. • Substantially all of the City's broken water meters have been replaced. • The City has retained a consulting engineering firm to assist in completing a rate study. The study will be used as a basis for adopting a rate structure that will meet the obligations imposed by the bond agreement.

SECTION III
MANAGEMENT LETTER

FINDINGS	RESPONSE
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 recommend that sewer customers located outside the City's water service area be billed based on usage.	**Utility Usage:** Substantially all of the broken water meters have been replaced. Furthermore, the City is currently making arrangements to bill each sewer customer based on water usage. When arrangements are complete, all sewer customers, including those outside of the City's water service area, will be billed in accordance with 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.	**Utility Rate Structure:** The City has engaged consulting engineers to assist in preparing a rate structure that will provide resources sufficient for operating the City.
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.	***Sanitation Rate Structure:*** Sanitation rates are being addressed as part of the utility rate study previously described. The study will be used as a basis for adopting rates that are sufficient to avoid financial difficulties.
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.	**Insurance:** In response to suggestions regarding the City's insurance activities the following action has been taken: • Fidelity bonds have been acquired for each employee with access to the City's financial resources. • The City has obtained proposals regarding a self insurance program that will provide medical coverage for the City's employees. The City is currently evaluating the proposals to determine which proposal offers the most value. Implementing a self insurance program is expected to result in a significant cost savings. • The City expects to increase amounts withheld from City employees in order to recover a larger portion of the cost associated with providing medical coverage for dependents.
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	**Fixed Asset Records:** In response to comments regarding the City's fixed asset records, the City has ordered software that will allow fixed asset records to be maintained internally. When the software has been installed, the City expects to establish the recommend capitalization threshold. Furthermore, the City intends to tag its equipment and conduct physical inventory procedures on a

significantly extend the useful life of a particular asset. • 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 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.	periodic basis.
Occupational Licenses: In order to maximize revenue from occupational licenses, the following recommendations were made: • 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.	**Occupational Licenses:** The City has obtained a comprehensive list of insurance companies and the list will be used to send occupational licenses applications to each of these companies. Furthermore, when occupational licenses are due, the City expects to include a notification with each utility bill issued to a commercial utility customer. When occupational licenses are past due, the City will identify delinquent businesses by comparing commercial utility account records with occupational license receipts.

CITY OF PINEVILLE

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

SECTION I **INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.**	
No findings of the nature were reported as a result of the previous audit.	Response – N/A
SECTION II **INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS**	
No findings of the nature were reported as a result of the previous audit.	Response – N/A
SECTION III **MANAGEMENT LETTER**	
No findings of the nature were reported as a result of the previous audit.	Response – N/A

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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, 1998, 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.

98-1, DEDICATED SALES TAXES:

As discussed in Note 12 to the financial statements, a portion of the City's sales tax levy is dedicated to constructing, acquiring and improving capital improvements, including 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. A partial list of purchases that appear unrelated to capital improvements is provided as follows:

- Purchase and repair of non capital items such as weedeaters, vacuum cleaners, decals, personal computers, printer cables, and furniture.
- Purchase of vehicles.
- Purchase of sanitation equipment.
- Payments, including interest, on debt incurred in the connection with the purchases described above.
- Payment on lease obligations incurred in connection with the rental of equipment.

- Payment of professional fees for planning, zoning and other projects not related to a specific capital improvement project.

Dedicated funds should not be used for any future expenditures that do not fall within the scope of capital improvements. If using the dedicated funds strictly for capital improvements creates a financial hardship, the City may consider placing a proposition of the an election ballot that will relieve the dedication and allow the sales tax proceeds to by used for broader purposes.

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. Several conditions that result from inadequate personnel policies are listed as follows:

- It has been possible for certain employees to remain on fully compensated sick leave for indefinite periods of time without providing a medical justification.
- Upon expiration of the former mayor's term, he was compensated for approximately ten weeks of accrued leave; however, we were unable to identify any specific policy permitting such payments. In addition, the current written personnel policy specifically prohibits paying employees for unused vacation.
- State law requires policies involving compensation of elected officials to be adopted in the form of an ordinance, but the City's was adopted by resolution.
- Aldermen received payments in addition to their regular compensation for attending special meetings; however, existing personnel policy does not address or specifically permit payments of this nature.
- The existing salary resolution requires annual adjustments based on an index published by the Social Security Administration. Assuming the City intends to continue granting automatic pay increases, a means of funding these increases should be established. If resources to fund the automatic increases cannot be identified, the City should consider revising its policy to provide for discretionary pay raises rather than mandatory pay raises.

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 polices, 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.

98-3, CASH DISBURSEMENTS:

During the course of our audit, we observed certain conditions involving the processing of cash disbursements. Our observations and recommendations for improvement are described as follows:

- Blank checks are stored in the City's vault; however, this area is only secure at night. In order to properly safeguard blank checks, these items should be stored in a location that remains secure at all times. Access to this location should be limited to personnel that are responsible for preparing checks.
- Due to the large volume of disbursements processed by the City, only checks bearing larger dollar amounts are signed by hand. The remaining items are stamped with a facsimile of the authorized signatures. In order to avoid unauthorized use of the signature stamps, access to these devices should be strictly limited to the person who's signature is produced by the devise.
- Individuals that are responsible for recording cash disbursements and reconciling bank accounts are currently authorized to sign checks. Allowing a single person to execute, record and reconcile cash transactions is not a desirable practice. In the future, individuals with access to the general ledger or the bank statements should be prohibited from signing checks.

98-4, SEGREGATION OF DUTIES:

Segregation of duties involves arranging employee responsibilities in a manner where no single employee has access to both physical assets and the related accounting records. Duties are arranged in this manner so that it will be impossible for an employee to misuse City resources and then conceal the misuse by manipulating the accounting records.

Currently, administrative personnel responsible for signing 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, we 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.

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.

98-5, ADMINISTRATION OF PUBLIC PROPERTY:

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. Transactions that represent apparent violations of these constitutional provisions are listed as follows:

- The City has given surplus vehicles to other municipalities and organizations.
- The City has provided financial support for various civic organizations that provided no consideration in exchange for the support.
- Employees that were unable to work were allowed receive regular payroll checks in exchange for reimbursing the City when their workers compensation benefits arrived.
- Numerous employees received year end bonuses, which were referred to a incentive pay.

Management can avoid future violations of this nature by becoming familiar with Article 7, Paragraph 14 of the Louisiana Constitution. Any transactions that might potentially violate these constitutional provisions should be referred to legal counsel.

98-6, BUDGETING:

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.

98-7, RESTRICTIVE COVENANTS:

The City has issued utility revenue bonds in order to finance improvements to the utility system. As part of its agreement with the bondholders, the City has entered into various obligations that require the utility system to be operated in a specific manner. These obligations are referred to as restrictive covenants. In the course of performing the audit, it was determined some of the restrictive covenants have been violated. The violations are summarized as follows:

- Bond agreements require all officers and employees who may be in a position of authority or in possession of money derived form the operation of the utility system shall be covered by a fidelity bond. The only employ covered by a fidelity bond is the City Clerk; however, this bond provides only $10,000 in coverage. In order to comply with restrictive covenants, the amount of coverage should be increased. Furthermore, coverage should be extended to all officers and employees who may be in a position of authority.

- Bond agreements define all charges not paid within 15 days of billing to be delinquent. In addition the agreements require services to be terminated if payment is not made within 10 days of becoming delinquent. These covenants have not been observed. In practice, service has not been terminated until delinquent charges exceed the customers deposit. As a result, the City has incurred losses for uncollectable utility charges. Furthermore, certain sewer customers that do not purchase water from the City have continued to receive service years after their last payment has been rendered. In one instance, a sewer customer that is charged $10.00 per month is approximately $500 in arrears.
- Bond agreements require all utility usage to be metered, but the results of the audit indicate that a large portion of the City's water meters were not in working order.
- Bond agreements require the City to charge and collect rates for utility services that are sufficient to pay necessary expenses of administering, operating and maintaining the utility system. In addition, the rate structure must provide sufficient income to meet principal and interest maturing on the utility revenue bonds. Since the utility fund has reported net losses for the most recent fiscal year, current utility rates are clearly inadequate based on criteria applied by restrictive covenants.

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:

An analysis of the City's utility billing registers indicates that a large portion of the City's water meters were not in working order. This situation should be corrected as soon as possible. Working meters are essential for the following reasons:

- A working meter is required in order for the City to collect revenue derived from the operation of its utility system. Since both water and sewer charges are based on water usage, the absence of working meters effects revenue from both sources.
- Restrictive covenants imposed by various utility revenue bond agreements require all usage to be metered and billed to the recipient.
- Allowing faulty meters to remain in services requires certain customers to pay a disproportionate share of the cost of operating the utility system. Each customer's usage must be accurately measured in order for the distribution of cost to be fair and equitable.

The City also provides sewer service to customers that are required to purchase water from another utility system; however, since the City does not measure their water usage, sewer charges have been based on a flat monthly rate. Monthly rates for some of the commercial sewer customers that are domiciled within Waterworks District No. 3 are provided as follows:

Best Western Motel	$ 6.00
Texaco Express Lube	6.00
Wendy's	6.00
Subway	6.00
McDonald's	6.00
Northside Baptist Church	6.00
Tioga High School	12.00
Tioga Jr. High School	12.00
Tioga Elementary	12.00
Kingsville Baptist Church	12.00

As the preceding list demonstrates, customers that are connected to the City's water system pay more for sewer service that customers in the outlying areas. In fact, many residential users are required to pay more that the businesses listed above. In order to correct this inequity, the City should make arrangements to bill all of its sewer customers in proportion to their water usage. This matter 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 Waterworks District No. 3.

Utility Rate Structure:

During the year ended June 30, 1998, expenses associated with operating the City's utility system exceeded revenue generated by the system. The inadequate nature of the utility rate structure is a direct violation of the City's revenue bond agreement. Furthermore, since the City does not have sufficient resource to continue operating at a loss, this matter must be addressed promptly. The City should adopt a rate structure that will provide sufficient income to operate the system, repay the systems debts and fund a depreciation reserve for the replacement of aging components of the system.

Sanitation Rate Structure:

Typical fees for sanitation service are $7.00 per month for residential service and $11.00 per month for commercial service. Revenue generated by these 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, this matter must be addressed. If sanitation services are expected to remain at existing level, additional revenue will be required.

Insurance:

The cost of insurance represents one of the larger components of the City's operating expenses. Coverage for employee health insurance benefits and workers compensation is particularly expensive. We recommend review the City's insurance for the following purposes:

- 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.

During the course of the audit, we noted that numerous employees with access to City funds are not covered by fidelity bonds. Apparently, the only employee covered by a fidelity bond is the City Clerk; however, this bond provides only $10,000 in coverage. In order to comply with the provisions of various revenue bond covenants, all employees with access to City fund must be subject to a fidelity bond that provides an appropriate amount of coverage. This may be accomplished by acquiring a "blanket" bond that covers an entire class of employees. Furthermore, coverage limits should be at least $50,000.

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 to 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. We recommend acquiring the necessary software and assigning City personnel to maintain these records.

Occupational Licenses:

Income from occupational licenses represents a significant source of revenue for the City's general fund. In order to fully realize this revenue source, the City should implement measures to ensure that each enterprise which is subject to the occupational licenses requirements actually complies with the requirements. This can be accomplished by performing the following activities on an annual basis:

- Review utility billing records for the purpose of identifying commercial utility customers that have not applied for occupational licenses.
- Contact the Commissioner of Insurance and request a list of insurance companies authorized to do business in Louisiana and correspond with each company that has not applied for a Pineville occupational license.

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