EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA
COMPONENT UNIT FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORTS
YEAR ENDED DECEMBER 31, 1998

CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
East Side Fire Protection District No. 5
Baton Rouge, Louisiana

We have audited the accompanying financial statements of East Side Fire Protection District No. 5, a component unit of the City of Baton Rouge, as of December 31, 1998, and for the year then ended. These component unit financial statements are the responsibility of East Side Fire Protection District No. 5. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of East Side Fire Protection District No. 5, as of December 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, an understatement of the previously reported General Fixed Asset Account Group and related Investment in Fixed Assets as of December 31, 1997, was discovered by the District during 1998. Accordingly, the December 31, 1997 General Fixed Asset Account Group and related Investment in Fixed Assets have been adjusted to correct the understatement.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 1999, on our consideration of East Side Fire Protection District No. 5's internal control structure and on its compliance with laws and regulations.

Burris, McKey & O'Brien
March 31, 1999

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EASTSIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA
ALL FUND TYPES AND ACCOUNT GROUPS
Balance Sheet, December 31, 1998

	Governmental Fund Types		Account groups		
	General	Capital Projects	General Fixed Assets	General Long-Term Debt	Totals Memorandum Only
ASSETS AND OTHER DEBITS					
Current Assets					
Cash and cash equivalents	$88,556	$0	$0	$0	$88,556
Property taxes receivable - net of allowance of $16,777	228,366	0	0	0	228,366
Due from other governments	248,333	0	0	0	248,333
Fixed Assets					
Land	0	0	151,360	0	151,360
Building	0	0	1,480,409	0	1,480,409
Equipment, furniture and fixtures	0	0	902,320	0	902,320
Other Debits					
Amount to be provided for					
- retirement of long term debt and lease payable obligations	0	0	0	1,003,113	1,003,113
- net pension obligation	0	0	0	3,341	3,341
- compensated absences	0	0	0	3,574	3,574
TOTAL ASSETS AND OTHER DEBITS	$565,255	$0	$2,534,089	$1,010,028	$4,109,372
LIABILITIES, EQUITY, AND OTHER CREDITS					
Current Liabilities					
Accounts and contracts payable	($16,777)	$0	$0	$0	($16,777)
Accrued expenses and benefits payable	(19,900)	0	0	0	(19,900)
Long-Term Liabilities					
Revenue bonds payable	0	0	0	(965,000)	(965,000)
Compensated absences payable	0	0	0	(3,574)	(3,574)
Net pension obligation	0	0	0	(3,341)	(3,341)
Lease obligation payable	0	0	0	(38,113)	(38,113)
Total Liabilities	(36,677)	0	0	(1,010,028)	(1,046,705)
Equity and Other Credits					
Investment in general fixed assets	0	0	(2,534,089)	0	(2,534,089)
Fund Balances:					
Undesignated	(528,578)	0	0	0	(528,578)
Total equity and other credits	(528,578)	0	(2,534,089)	0	(3,062,667)
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	($565,255)	$0	($2,534,089)	($1,010,028)	($4,109,372)

The accompanying notes are an integral part of these financial statements.

EXHIBIT B

EASTSIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Total Governmental Fund Types Actual and Budget (Non-GAAP Basis)
Year Ended December 31, 1998

	General Fund	Capital Projects	Totals Memorandum Only	Totals for Budgets	Variance Favorable (Unfavorable)
REVENUES					
Ad valorem taxes	($468,607)	$0	($468,607)	($285,000)	$183,607
Fire protection user charges	(151,461)	0	(151,461)	(150,000)	1,461
Intergovernmental revenue	(36,660)	0	(36,660)	(36,660)	0
Other	(24,260)	(25,000)	(49,260)	(24,581)	24,679
Interest earnings	(8,951)	0	(8,951)	(6,000)	2,951
Total revenues	(689,938)	(25,000)	(714,938)	(502,241)	212,697
EXPENDITURES					
Salaries and related benefits	179,489	0	179,489	167,134	(12,355)
Repairs and maintenance	68,373	0	68,373	70,200	1,827
Legal and professional	23,401	4,498	27,899	28,486	587
Insurance	18,449	0	18,449	18,449	0
Supplies	46,582	0	46,582	43,600	(2,982)
Utilities	20,856	0	20,856	21,100	244
Capital outlay	104,075	420,000	524,075	482,856	(41,219)
Debt service - Bond Principal	67,500	0	67,500	67,500	0
- Interest	31,077	6,203	37,280	31,361	(5,919)
Other	22,392	14,299	36,691	52,400	15,709
Total expenditures	582,194	445,000	1,027,194	983,086	(44,108)
(EXCESS) DEFICIENCY OF REVENUES OVER EXPENDITURES	(107,744)	420,000	312,256	480,845	168,589
OTHER FINANCING (SOURCES)					
Proceeds from general obligation bonds	0	(420,000)	(420,000)	(420,000)	0
Proceeds from note payable	(38,113)	0	(38,113)	(25,100)	13,013
Change for increase in net pension obligation	(800)	0	(800)	0	800
Change for increase in compensated absences accrued	(1,023)	0	(1,023)	0	1,023
Total other financing sources	(39,936)	(420,000)	(459,936)	(445,100)	14,836
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(147,680)	0	(147,680)	35,745	183,425
FUND BALANCES, BEGINNING	(380,898)	0	(380,898)	(380,898)	(380,898)
FUND BALANCES, END OF YEAR	($528,578)	$0	($528,578)	($345,153)	($564,323)

The accompanying notes are an integral part of these financial statements.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FORMATION AND OPERATIONS

East Side Fire Protection District No. 5 (the District) is a component unit of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana (the City-Parish). The District is governed by a five member board. The board members are appointed by the City-Parish and are not compensated. Effective January 1,1994, the District became a separate operational unit acting independently from the City-Parish, pursuant to an intergovernmental agreement between the City-Parish and the District.

The purpose of the District is to provide fire protection for the citizens of the District. The district serves approximately 4,000 households and other business establishments. The District employs the equivalent of two permanent full-time employees and three permanent part-time employees. It also employs temporary employees as needed. The majority of the services are provided through volunteers.

B. BASIS FOR PRESENTATION

The accompanying financial statements of East Side Fire Protection District No. 5 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

C. REPORTING ENTITY

As the governing authority, for reporting purposes, the City-Parish is the primary financial reporting entity. Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the City-Parish 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. Because the City-Parish Metropolitan Council appoints the District's governing body and

(1) has the ability to impose its will on the District, and
(2) the District has the potential to provide specific financial benefits to or impose specific financial burdens on the City-Parish,

the District was determined to be a component unit of the City-Parish.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. FUND ACCOUNTING

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. The General Fund is used to record all financial resources not required to be accounted for in other funds.

E. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The operating statement presents increases and decreases in net current assets. The modified accrual basis of accounting is used by the Governmental Funds. Revenues are recognized in the accounting period in which they become available and measurable.

Property taxes are considered measurable in the calendar year of the tax levy. User fees are considered measurable in the period they are collected. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses). They are recorded at the time the transfer is made.

F. BUDGET

The 1998 budget was prepared in 1997 by the Chief, and ratified by the Board of Commissioners. A public hearing was held in December 1997, and the budget became effective January 1, 1998. Only one authorized amendment was made to the 1998 budget.

The budget for the District is prepared on the cash and expenditures basis. Revenues and receipts are budgeted in the year receipt is expected, and expenditures and disbursements are budgeted in the year that the purchases are made. No budget distinction is made between the capital projects and general funds. Further, for financial statement presentation purposes, the governmental funds are combined and compared to the budget for variances.

G. ENCUMBRANCES

The District does not use an encumbrance system of accounting. The books are kept on the cash basis and the financial statements are prepared on the modified accrual basis of accounting.

H. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. The District considers short-term (maturity of 90 days or less), highly liquid investments as cash equivalents. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

I. FIXED ASSETS

Fixed assets are recorded as expenditures at the time of purchase, and the related assets are capitalized (reported) in the general fixed assets account group. Fixed assets donated are recorded at the estimated fair market value at the time the assets were donated. No depreciation has been provided on general fixed assets.

J. COMPENSATED ABSENCES

The District's policy relating to vacation and sick leave includes recognizing sick leave at a rate of .02 hours for every hour worked. No cash payment may be made for accumulated sick leave. Part time employees earn vacation time at a rate of .04 hours for every hour worked. The full time employee earned vacation at a rate of twelve hours per month, which equates to eighteen days per year.

K. LONG-TERM OBLIGATIONS

Long-term obligations expected to be financed from governmental funds are reported in the long-term obligations account group.

L. FUND EQUITY

Fund balances consist of undesignated balances as well as the following:

(1) Reserves: Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.
(2) Designated Fund Balances: Designated fund balances represent tentative plans for future use of financial resources.

M. TOTAL COLUMNS ON STATEMENTS

The total columns on the statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

2. PRIOR PERIOD ADJUSTMENT

During 1998, the District became aware of the necessity for a prior period adjustment to the General Fixed Asset Account Group and related Investment in Fixed Assets for the year ended December 31, 1997. During 1995, the District completed construction of its current facilities and closed the related capital projects fund. However, $709,612 of costs of the building were never transferred to the General Fixed Asset Account Group. For the year ended December 31, 1998, the adjustment has been made effective December 31, 1997. See Note 6.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

3. CASH AND CASH EQUIVALENTS

At December 31, 1998, the District had cash and cash equivalents (book balances) as follows:

Certificate of deposit	$77,622
Interest-bearing demand deposits	10,934
Total	$ 88,556

These deposits are stated at cost, which approximate market. Under state law, these deposits (or the resulting bank balances) 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 December 31, 1998, the District had deposits (collected bank balances) secured from risk by $100,000 of federal deposit insurance and $525,000 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 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

4. INVESTMENTS

The District does not have any investments other than the cash deposits shown in the financial statements under cash and cash equivalents.

5. PROPERTY TAXES RECEIVABLE

The following is a summary of property taxes receivable at December 31, 1998:

Property taxes receivable	$243,143
Less allowance for uncollectible accounts	(16,777)
Net property taxes receivable	$228,366

The allowance represents taxes not expected to be collected within the next year.

6. CHANGES IN GENERAL FIXED ASSETS

As discussed more fully in Note 2, the General Fixed Asset Account Group has been restated as of December 31, 1997 to reflect a reporting correction.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

6. CHANGES IN GENERAL FIXED ASSETS - continued

	Building Furniture, & Equipment	Land	Total
Balance at 12/31/97, As Originally Reported	$1,149,042	$151,360	$1,300,402
Building construction costs	709,612	-0-	709,612
Balance at 12/31/97, As Restated	$1,858,654	$151,360	$ 2,010,014
Additions - 1998	524,075	-0-	524,075
Balance at 12/31/98	$ 2,382,729	$ 151,360	$2,534,089

7. RETIREMENT PLAN AND NET PENSION OBLIGATION

The District's only full-time employee is eligible for participation in the Employees' Retirement System of the City-Parish. Contributions in the amount of $11,346 were made during 1998.

In 1998, the East Baton Rouge City-Parish Employees System engaged its actuary to determine the "Net Pension Obligation" (NPO) as of January 1, 1998. Governmental Accounting Standards Board Statement Number 27, *Accounting for Pensions by State and Local Governmental Employers* requires the NPO to be disclosed in the General Long-term Debt Account Group for governmental fund types. The NPO is defined as the difference between actual retirement contributions and the actuarially required contributions.

As of January 1, 1998, the District had a NPO of $2,542. The change in the NPO for the year ended December 31, 1998 is estimated to be approximately $800 based on historical trends of 1996 and 1997.

8. COMPENSATED ABSENCES

At December 31, 1998, employees of the District have accumulated and vested $3,574 of vacation benefits, which was computed in accordance with GASB Codification Section C60. This amount is recorded within the general long-term obligations account group.

9. LEASE OBLIGATION

On May 7, 1998, the District entered into a lease purchase for a new multi-purpose automotive vehicle. The cost of the asset and enhancements was $38,113, to be repaid three annual installments of principal and interest totaling $13,892.35. The imputed interest rate was calculated to be approximately 4.5%. The total lease obligation is included in the General Long-Term Debt Account Group.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

10. CHANGES IN GENERAL LONG-TERM OBLIGATIONS

During 1994, the District issued a long-term certificate of indebtedness to a local bank in the amount of $800,000, payable over a 10-year period at rates ranging from 3.75% to 6.00% to acquire facilities and equipment for the District's fire protection purposes. Remaining annual principal payments range from $70,000 in 1999 to $159,500 in 2004. The certificate is secured by and payable solely from a pledge and dedication of the excess of annual revenues of the District above statutory, necessary, and usual charges in each of the fiscal years during which the certificate is outstanding.

On September 24, 1998, the District issued a long-term certificate of indebtedness to a local bank in the amount of $420,000, payable over a six year period at a stated rate of 5.43% to construct a training facility and equipment for the District's fire protection purposes. Remaining annual principal payments range from $61,000 in 1999 to $80,000 in 2004. The certificate is secured by and payable solely from a pledge and dedication of the excess of annual revenues of the District above statutory, necessary, and usual charges in each of the fiscal years during which the certificate is outstanding.

The following is a summary of the long-term obligation transactions during the year:

	Compensate Absences	Capital Leases	Bond Debt	Totals
Balance at December 31, 1997	$ 2,551	$ -0-	$ 612,500	$ 615,051
Additions	1,023	38,113	420,000	459,136
Deductions/repayments	-0-	-0-	(67,500)	(67,500)
Balance at December 31, 1998	$ 3,574	$38,113	$ 965,000	$1,006,687

The annual requirements to amortize all long-term obligations outstanding at December 31, 1998, including interest are as follows:

Year Ending	*Bond Issue* $800M	*Bond Issue* $420M	*Lease* Obligation	Total
1999	$ 99,901	$83,236	$13,895	$197,032
2000	99,576	83,494	13,895	196,965
2001	100,426	84,018	13,896	198,340
2002	98,858	84,326	-0-	183,184
2003	99,458	83,417	-0-	182,875
2004	169,070	84,344	-0-	253,414
	$ 667,289	$ 502,835	$ 41,686	$1,211,810

11. RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the year ended December 31, 1998.

EAST SIDE FIRE PROTECTION DISTRICT NO. 5
CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE, LOUISIANA

Notes to the Financial Statements
For the Year Ended December 31, 1998

12. LITIGATION AND CLAIMS

The District was not involved in any litigation and is unaware of any claims outstanding.

13. VALUE OF CONTRIBUTED SERVICES

The District relies heavily on the contributed services of volunteer firefighters and support staff. During 1998, there were responses to 3,728 fire and emergency medical services (EMS) calls. Volunteer hours for training, firefighting, and administrative duties totaled approximately 18,541 at an estimated value of approximately $225,000, which is not included in the accompanying financial statements.

14. CONTINGENCIES

Under current Civil Service regulations, each employee is technically allowed one year of compensated sick pay in the event of a long term illness. Under this policy, the District could be liable for additional compensated absences for sick for all employees in the amount of $91,888.

On March 26, 1998, the District entered into a purchase agreement with Bonaventure Co., Inc. for a fire engine, complete with all hose, appliances, fittings and accessories per the bid specifications dated March 17, 1998. The financing of the new truck has been preliminarily approved by Hibernia National Bank as a lease purchase, and is anticipated to be finalized in early 1999. As of December 31, 1998, the District had not received delivery of the vehicle or recorded the related lease obligation.

15. YEAR 2000 COMPLIANCE

The District is significantly dependent upon computerized systems for operations and to provide fire protection services to the area's residents and businesses. In a continuing process, the District is actively engaged in making necessary changes to its systems and equipment to achieve year 2000 compliance.

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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

Board of Commissioners
East Side Fire Protection District No. 5
Baton Rouge, Louisiana

We have audited the component unit financial statements of East Side Fire Protection District No. 5 as of and for the year ended December 31, 1998, and have issued our report thereon dated March 31, 1999. We conducted our audit 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 the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments."

Compliance

As part of obtaining reasonable assurance about whether East Side Fire Protection District No. 5's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Side Fire Protection District No. 5'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of findings and questioned costs as Item I-1 on page 12.

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 the reportable condition described is not a material weakness.

This report is intended solely for the use of management and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Burris, McKey & O'Brien

March 31, 1999

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EAST SIDE FIRE PROTECTION DISTRICT NO. 5
BATON ROUGE, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 1998
(See Auditors' Report)

INTERNAL CONTROL OVER FINANCIAL REPORTING

I-1. Criteria: Proper internal controls require that procedures be in place to account for additions to and removals from the District's fixed asset inventory listing.

Condition: Chief Dale Hancock has the authority to approve all additions to and removal of capital outlay items as allowed by the budget. In previous years, the District has not maintained an adequate fixed asset inventory listing. Consequently, items that could have been either been added or removed from the General Fixed Asset Account Group were not tracked. Thus, it appears that there could be a difference between the physical inventory list and the amount reflected on the financial statements.

This matter was informally communicated to management in connection with the prior year's audit. the prior year. While a physical inventory list was prepared by the District, there was no reconciliation between the detail records and the financial statements.

Effect: The fixed assets have not been adequately identified for safeguarding against unauthorized disposal or replacement loss for insurance purposes, and the above condition would not be detected in a timely manner during the regular course of business.

Recommendation: We recommend that Captain Robert Gateley and his staff continue to inventory all fixed assets and reconcile additions and removals to amounts recorded in the general ledger. Any outstanding difference should be researched, identified and disposed as soon as possible.

Management Response: In 1998, management implemented a system to track equipment purchases and disposals of all major items. Management realizes the difference referred to above is a culmination of several years' worth of deficient inventory tracking. However, the difference should be easily identifiable and will be reported appropriately. Captain Gateley will research the difference and provide explanations in the disposition thereof. Chief Hancock will supervise Captain Gateley's efforts and authorize the final disposition of the difference.