

TOWN OF MERRYVILLE
ANNUAL FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT

JUNE 30, 2004

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

Release Date 1-12-05

John A. Windham, CPA

A Professional Corporation

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John A. Windham, CPA

December 31, 2004

Louisiana Legislative Auditor
Baton Rouge, La 70804

I am resubmitting the Town of Merryville's audit report for the year ending June 30, 2004. The changes made include Page 5; Statement of Activities; Net assets at beginning of year for Governmental Activities was \$370,698 and the total was \$1,953,304 and it should be \$85,983 and \$1,668,589, respectively. This also changes the Net assets at end of year for Governmental Activities was \$355,777 and the total was \$1,909,827 and they should be \$71,062 and \$1,625,112, respectively.

If any further information is required please contact me at (337) 462-3211.

Thank you,

John A. Windham, CPA (APC)

Table of Contents

	Statement	Page(s)
INDEPENDENT AUDITOR’S REPORT	-	1-2
BASIC FINANCIAL STATEMENTS:		
Statement of Net Assets	A	4
Statement of Activities	B	5
Balance Sheet – Governmental Funds	C	6
Reconciliation of the Governmental Funds Balance Sheet To Statement of Net Assets	D	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	E	8-9
Reconciliation of the Statement of Revenues Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	F	10
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	G	11-12
Special Revenue Fund – Sales Tax Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	H	13
Statement of Net Assets – Proprietary Fund	I	14
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	J	15
Statement of Cash Flows – Proprietary Fund	K	16-17
Notes to the Financial Statements	-	18-27
	Schedule	Page(s)
Required Supplemental Information		
Schedule of Per Diem Paid to Board Members	1	29
Schedule of Prior Year Audit Findings	2	30
Schedule of Corrective Action Plan For the Current Year Audit Findings	3	31-32
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	-	33-34

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INDEPENDENT AUDITOR'S REPORT

The Honorable Foy W. Rhodes, Mayor
and Members of the Board of Aldermen
Town of Merryville, Louisiana

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of the Town of Merryville, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Merryville, Louisiana's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Merryville, Louisiana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 20, 2004 on my consideration of the Town of Merryville, Louisiana's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Town of Merryville, Louisiana, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Honorable Foy W. Rhodes, Mayor
and Members of the Board of Aldermen

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Merryville, Louisiana's basic financial statements. The schedules of per diem paid to board members, prior year audit findings, and current year audit findings are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of per diem paid to board members, prior year audit findings, and current year audit findings have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules of per diem paid to board members, prior year audit findings and current year audit findings have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



DeRidder, Louisiana
September 20, 2004

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 187,311	\$ 80,468	\$ 267,779
Receivables:			
Ad valorem	52	-	52
Sales taxes	19,867	-	19,867
Franchise taxes	5,776	-	5,776
Accounts	-	16,551	16,551
Intergovernmental:			
Alcohol taxes	1,043	-	1,043
State mowing contract	2,920	-	2,920
Due from other funds	3,032	-	3,032
Restricted assets	-	105,344	105,344
Capital assets, net	-	1,738,333	1,738,333
Total assets	<u>\$ 220,001</u>	<u>\$ 1,940,696</u>	<u>\$ 2,160,697</u>
LIABILITIES			
Accounts payable	\$ 14,291	\$ 5,688	\$ 19,979
Payroll taxes payable	2,711	1,106	3,817
Contracts payable	131,937	-	131,937
Due to other funds	-	3,032	3,032
Accrued interest payable	-	15,424	15,424
Customer deposits	-	14,021	14,021
Current portion of revenue bonds	-	16,000	16,000
Revenue bonds payable	-	331,375	331,375
Total liabilities	<u>\$ 148,939</u>	<u>\$ 386,646</u>	<u>\$ 535,585</u>
NET ASSETS			
Invested in capital asset	\$ -	\$ 1,390,958	\$ 1,390,958
Restricted for:			
Revenue bond retirement	-	59,244	59,244
Customer deposits	-	654	654
Unrestricted	71,062	103,194	174,256
Total net assets	<u>\$ 71,062</u>	<u>\$ 1,554,050</u>	<u>\$ 1,625,112</u>
Total liabilities and net assets	<u>\$ 220,001</u>	<u>\$ 1,940,696</u>	<u>\$ 2,160,697</u>

The accompanying notes are an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2004

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Program Activities						
Governmental activities:						
General government and administration	\$ 163,559	\$ 5,839	\$ 16,750	\$ (135,855)	\$ -	\$ (135,855)
Public safety	125,131	3,383	1,414	(63,802)	-	(63,802)
Public works	460,597	-	388,113	(60,247)	-	(60,247)
Total governmental activities	\$ 749,287	\$ 9,222	\$ 406,277	\$ (259,904)	\$ -	\$ (259,904)
Business-type activities:						
Water and sewer	285,631	-	1,560	-	(99,991)	(99,991)
Total government	\$ 1,034,918	\$ 9,222	\$ 407,837	\$ (259,904)	\$ (99,991)	\$ (359,895)
General revenues:						
Taxes:						
Ad valorem taxes				19,319	-	19,319
Sales taxes				216,475	-	216,475
Alcohol taxes				5,519	-	5,519
Occupational licenses and permits				39,812	-	39,812
Franchise fees				33,351	-	33,351
Investment earnings				1,068	430	1,498
Miscellaneous				444	-	444
Transfers				(71,005)	71,005	-
Total general revenues and transfers				244,983	71,435	316,418
Change in net assets				(14,921)	(28,556)	(43,477)
Net assets at beginning of year				85,983	1,582,606	1,668,589
Net assets at end of year				\$ 71,062	\$ 1,554,050	\$ 1,625,112

The accompanying notes are an integral part of the statement.

Balance Sheet
Governmental Funds
June 30, 2004

	General	Major Funds		Total Governmental Funds
		Special Revenue Fund	Capital Projects Fund 2002 LCDBG Sewer Project	
ASSETS				
Cash and cash investments	\$ 31,824	\$ 23,550	\$ 131,937	\$ 187,311
Receivables				
Ad valorem taxes	52	-	-	52
Sales taxes	-	19,867	-	19,867
Franchise taxes	5,776	-	-	5,776
Intergovernmental				
Alcohol taxes	1,043	-	-	1,043
State mowing contract	2,920	-	-	2,920
Due from other funds	3,032	-	-	3,032
Total assets	\$ 44,647	\$ 43,417	\$ 131,937	\$ 220,001

LIABILITIES AND FUND BALANCES

Liabilities:				
Accounts payable	\$ 13,485	\$ 806	\$ -	\$ 14,291
Payroll taxes payable	2,711	-	-	2,711
Contracts payable	-	-	131,937	131,937
Total liabilities	\$ 16,196	\$ 806	\$ 131,937	\$ 148,939
Fund Balances:				
Unreserved, reported in:				
General Fund	\$ 28,451	\$ -	\$ -	\$ 28,451
Special revenue funds	-	42,611	-	42,611
Capital project funds	-	-	-	-
Total fund balances	\$ 28,451	\$ 42,611	\$ -	\$ 71,062
Total liabilities and fund balances	\$ 44,647	\$ 43,417	\$ 131,937	\$ 220,001

The accompanying notes are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2004

Total fund balance - total governmental funds	\$	71,062
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheets.		<u>284,715</u>
Net assets of governmental activities	\$	<u><u>355,777</u></u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004

	General Fund	Major Funds			Total Governmental Funds
		Special Revenue Fund	Capital Projects Fund	2002 LCDBG Sewer Project	
Revenues					
Taxes:					
Ad valorem	\$ 19,319	\$ -	\$ -	\$ -	\$ 19,319
Sales	-	216,475	-	-	216,475
Alcohol taxes	5,519	-	-	-	5,519
Franchise	33,351	-	-	-	33,351
Charges for services	18,721	-	-	-	18,721
Intergovernmental:					
Federal grants - LCDBG	-	-	388,113	-	388,113
State grants	18,164	-	-	-	18,164
Local grants	3,383	-	-	-	3,383
Occupational licenses and permits	406	39,406	-	-	39,812
Investment income	1,068	-	-	-	1,068
Fines and forfeitures	56,532	-	-	-	56,532
Rentals	4,470	-	-	-	4,470
Other revenues	444	-	-	-	444
Total revenues	\$ 161,377	\$ 255,881	\$ 388,113	\$ 388,113	\$ 805,371
Expenditures					
General government	\$ 148,426	\$ 4,840	\$ -	\$ -	\$ 153,266
Public safety	111,450	-	-	-	111,450
Public works	72,484	-	388,113	-	460,597
Total expenditures	\$ 332,360	\$ 4,840	\$ 388,113	\$ 388,113	\$ 725,313
Excess (deficiency) of revenues over expenditures	\$ (170,983)	\$ 251,041	\$ -	\$ -	\$ 80,058

(Continued)

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004

	Major Funds			Total Governmental Funds
	Special Revenue Fund	Capital Projects Fund	2002 LCDBG Sewer Project	
General Fund	\$ 177,991	\$ -	\$ -	\$ 177,991
Other financing sources (uses)				
Transfer in	-			(248,996)
Transfer out	\$ 177,991	\$ (248,996)	\$ -	\$ (71,005)
Total other financing sources (uses)				
Net change in fund balance	\$ 7,008	\$ 2,045	\$ -	\$ 9,053
Fund balances at beginning of year	21,443	40,566	-	62,009
Fund balances at end of year	\$ 28,451	\$ 42,611	\$ -	\$ 71,062

(Concluded)

The accompanying notes are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the
Statement of Activities

For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 9,053
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>	3,035
<p>Depreciation expense on capital assets is reported in the government- wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.</p>	<u>(27,009)</u>
Change in net assets of governmental activities	<u><u>\$ (14,921)</u></u>

The accompanying notes are an integral part of this statement.

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amount Budgetary Basis	Budget to GAAP differences over/(under)	Actual Amount GAAP Basis
	Original	Final			
Revenues					
Taxes:					
Ad valorem	\$ 17,000	\$ 19,400	\$ 19,319	\$ (81)	\$ 19,319
Alcohol taxes	6,000	5,350	5,519	169	5,519
Franchise fees	34,000	33,400	33,351	(49)	33,351
Charges for services	18,440	18,705	18,721	16	18,721
Intergovernmental:					
State grants	10,000	16,750	18,164	1,414	18,164
Local grants	3,100	4,800	3,383	(1,417)	3,383
Occupational licenses and permits	300	76	406	330	406
Investment income	-	-	1,068	1,068	1,068
Fines and forfeitures	70,000	56,226	56,532	306	56,532
Rentals	4,200	4,420	4,470	50	4,470
Other revenue	522	2,003	444	(1,559)	444
Total revenues	\$ 163,562	\$ 161,130	\$ 161,377	\$ 247	\$ 161,377
Expenditures					
General government and administration	\$ 144,950	\$ 150,258	\$ 148,426	\$ 1,832	\$ 148,426
Public safety	118,447	110,556	111,450	(894)	111,450
Public works	86,760	73,530	72,484	1,046	72,484
Total expenditures	\$ 350,157	\$ 334,344	\$ 332,360	\$ 1,984	\$ 332,360
Excess (deficiency) of revenues over expenditures	\$ (186,595)	\$ (173,214)	\$ (170,983)	\$ 2,231	\$ (170,983)

(Continued)

The accompanying notes are an integral part of this statement.

General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amount		Budget to GAAP differences over(under)	Actual Amount GAAP Basis
	Original	Final	Budgetary Basis			
Other financing sources (uses):						
Transfers in	\$ 165,000	\$ 177,900	\$ 177,991	\$ 91	\$ 177,991	
Net change in fund balance	\$ (21,595)	\$ 4,686	\$ 7,008	\$ 2,322	\$ 7,008	
Fund balances at beginning of year	21,443	21,443	21,443	-	21,443	
Fund balances at end of year	<u>\$ (152)</u>	<u>\$ 26,129</u>	<u>\$ 28,451</u>	<u>\$ 2,322</u>	<u>\$ 28,451</u>	<u>(Concluded)</u>

The accompanying notes are an integral part of this statement.

Special Revenue Fund
Sales Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amount Budgetary Basis	Budget to GAAP differences over(under)	Actual Amount GAAP Basis
	Original	Final			
Revenues					
Taxes:					
Sales	\$ 196,500	\$ 217,700	\$ 216,475	\$ (1,225)	\$ 216,475
Occupational licenses and permits	34,586	36,000	39,406	3,406	39,406
Total revenues	\$ 231,086	\$ 253,700	\$ 255,881	\$ 2,181	\$ 255,881
Expenditures					
General government and administration	\$ 4,305	\$ 4,700	\$ 4,840	\$ (140)	\$ 4,840
Excess (deficiency) of revenues over expenditures	\$ 226,781	\$ 249,000	\$ 251,041	\$ 2,041	\$ 251,041
Other financing sources (uses):					
Transfers out	\$ (225,800)	\$ (248,000)	\$ (248,996)	\$ (996)	\$ (248,996)
Net change in fund balance	\$ 981	\$ 1,000	\$ 2,045	\$ 1,045	\$ 2,045
Fund balances at beginning of year	40,566	40,566	40,566	-	40,566
Fund balances at end of year	\$ 41,547	\$ 41,566	\$ 42,611	\$ 1,045	\$ 42,611

The accompanying notes are an integral part of this statement.

Statement of Net Assets
Proprietary Fund
June 30, 2004

	Business-Type Activities - Enterprise Fund Water and Sewer
Assets	
Current Assets	
Cash and cash investments	\$ 80,468
Receivables:	
Accounts	16,551
<i>Total current assets</i>	<u>\$ 97,019</u>
Noncurrent Assets	
Restricted cash and cash investments	\$ 105,344
Capital assets, net	1,738,333
<i>Total noncurrent assets</i>	<u>\$ 1,843,677</u>
<i>Total assets</i>	<u>\$ 1,940,696</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 5,688
Payroll taxes payable	1,106
Due to other funds	3,032
<i>Total current liabilities</i>	<u>\$ 9,826</u>
Liabilities payable from restricted assets	
<i>Accrued interest payable</i>	\$ 15,424
Customer deposits	14,021
Revenue bonds payable	16,000
<i>Total liabilities payable from restricted assets</i>	<u>\$ 45,445</u>
Noncurrent Liabilities	
Revenue bonds payable	\$ 331,375
<i>Total liabilities</i>	<u>\$ 386,646</u>
Net Assets	
Invested in capital assets	\$ 1,390,958
Restricted for:	
Revenue bond retirement	59,244
Customers deposits	654
Unrestricted	103,194
<i>Total net assets</i>	<u>\$ 1,554,050</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,940,696</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Fund
 For the Year Ended June 30, 2004

	Business - Type Activities - Enterprise Fund
	Water and Sewer
Operating revenues	
Charges for services	\$ 184,080
Operating expenses	
Personal services	82,550
Supplies	16,706
Contractual services	67,752
Depreciation	101,163
Total operating expenses	\$ 268,171
Income (loss) from operations	\$ (84,091)
Nonoperating revenues (expenses)	
Investment income	\$ 430
Interest expense	(17,460)
Total nonoperating revenues (expenses)	\$ (17,030)
Income (loss) before contributions and transfers	\$ (101,121)
Capital contributions	\$ 1,560
Transfers in	71,005
Change in net assets	\$ (28,556)
Net assets at beginning of year	1,582,606
Net assets at end of year	\$ 1,554,050

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2004

	<u>Business-Type Activities - Enterprise Fund</u>
	<u>Water and Sewer</u>
Cash flows from operating activities:	
Cash received from customers	\$ 185,043
Cash payments to suppliers for goods and services	(82,113)
Cash payments to employees for services	(83,983)
Net cash provided by operating activities	<u>\$ 18,947</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	<u>\$ 71,027</u>
Net cash provided by noncapital financing activities	<u>\$ 71,027</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (17,603)
Interest paid on bonds	(18,119)
Retirement of bonds	(15,000)
Contributed capital	1,560
Net cash (used) by capital and related financing activities	<u>\$ (49,162)</u>
Cash flow from investing activities:	
Interest on cash and investments	<u>\$ 430</u>
Net increase (decrease) in cash and cash investments	\$ 41,242
Cash and Cash investments, July 1	144,570
Cash and Cash investments, June 30	<u>\$ 185,812</u>

(Continued)

Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2004

	Business-Type Activities - <u>Enterprise Funds</u>
	<u>Water and Sewer</u>
Reconciliation of (loss) from operations to net cash provided by operating activities:	
Loss from operations	\$ (84,091)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:	
Depreciation	\$ 101,163
Change in assets and liabilities:	
Decrease in accounts receivable	9
Decrease in payroll taxes	(1,433)
Increase in accounts payable	2,345
Increase in customer deposits	954
Net cash provided by operating activities	<u>\$ 18,947</u>
	(Concluded)

The accompanying notes are an integral part of this statement.

Town of Merryville, Louisiana
Notes to the Financial Statements
As of and for the Year Ended June 30, 2004

INTRODUCTION

The Town of Merryville was incorporated under the provisions of the Lawrason Act. The Town operates under a Mayor-Board of Aldermen form of government.

The accounting and reporting policies of the Town of Merryville conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The Town maintains various funds that provide services and benefits to its citizens including repairs and maintenance of approximately 15 miles of roads and streets, and water, sewer, and garbage collection services to approximately 600 residents.

The Town is located within Beauregard Parish in the southwestern part of the State of Louisiana and is comprised of approximately 1,200 residents. The governing board is composed of five elected aldermen that are compensated for regular and special board meetings. There are approximately six employees who maintain the water and sewer systems and handle the clerical work for the Town. The police department consists of an elected chief of police and approximately four patrolman.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the municipality is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the municipality may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The municipality reports the following major governmental funds:

The General Fund is the municipality's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for proceeds of specific revenue sources, in the town's case sales tax, that are legally restricted to expenditures for specific purposes.

The Capital Project Fund accounts for LCDBG (Louisiana Community Development Block Grant) grant revenues that have been approved for certain specific projects undertaken by the town.

The municipality reports the following major proprietary fund:

The Proprietary Fund accounts for operations (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments enterprise operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Charges for services of providing water and sewer services to residents comprise the operating revenue of the Town's enterprise fund. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

When both restricted and unrestricted resources are available for use, it is the municipality's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

The municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the municipality's investment policy allow the municipality to invest in collateralized certificates of deposits,

government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

D. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes are collected and remitted by the local sheriff, if taxes are not paid, a sheriff's sale is held and the property is sold to satisfy the taxes due on that property. Due to this, the majority, if not all property taxes are collected, therefore no allowance account for uncollectibles has been established. Water and sewer charges have customer deposits that have been collected in advance therefore the majority of all water and sewer billing is collected or taken out of the customer's deposit, any allowance account would be immaterial, therefore one has not been established.

Property taxes are levied on a calendar year basis and become due on January 1 of each year. The following is a summary of authorized and levied ad valorem taxes:

	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
Taxes due for:			Renewed
General corporate tax	7.58	7.58	Annually

The following are the principal taxpayers and related property tax revenue for the municipality:

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>	<u>Ad Valorem Tax Revenue for Municipality</u>
Bellsouth Telecommunications	Communications	\$ 220,950	10%	\$ 16,748
Central Louisiana Electric, Co.	Utility	177,540	8%	13,457
Malone Lumber Co.	Lumber yard	261,074	12%	19,789
		<u>\$ 659,564</u>	<u>30%</u>	<u>\$ 49,994</u>

Sales Taxes

The Town of Merryville receives a three-percent sales tax, which is dedicated to the maintenance of the sewer system (1%), repair and maintenance of streets and roadways (1%), and the collection and disposal of solid waste (1%).

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

E. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Bond reserve fund - The Utility Revenue Bonds dated August 10, 1978 require that a reserve fund be established. Money in these accounts are used to pay the maturing principal and interest on the bonds.

Depreciation and contingency fund - The Utility Revenue Bonds dated August 10, 1978 require that a depreciation and contingency fund be established. Money in this account is used for extensions, additions, improvements and replacements necessary to properly operate the system.

Cash collected from utility fund customers as deposits against future utility bills are classified as restricted assets and are held by the town in a custodial cash account entitled "Customer Deposits".

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$1,000 or more for capitalizing capital assets.

According to GASB 34 the Town of Merryville was not required to retroactively report infrastructure assets in it's financial statements, therefore, these assets have not been reported in the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense included during the current fiscal year was \$17,460. No interest was included as part of the cost of capital assets under construction in construction projects.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Roads, bridges, and infrastructure	40-50 years
Land improvements	40-50 years
Buildings and building improvements	40-50 years
Furniture and fixtures	5-15 years
Vehicles	5-10 years
Equipment	3-15 years

G. Compensated Absences

The municipality has the following policy relating to vacation and sick leave:

Each fulltime and part time permanent municipal employee shall earn annual vacation and sick leave as follows:

Vacation

- Five (5) days with pay after one (1) year employment.
- Ten (10) days with pay after two (2) years employment.

Vacation days cannot be carried over from year to year.

The least amount of vacation taken at one time is one half (1/2) day.

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

The board may, in its discretion, pay as terminal pay all accumulated unused annual leave time up to a maximum of ten (10) days of such annual leave upon the retirement or resignation of an employee. An employee dismissed for cause shall not be paid for any accumulated annual leave.

Employees required to work on an observed holiday shall receive compensatory time off. Holidays observed by the municipality shall not be counted as vacation leave.

Leave from work with pay may be charged as sick leave if the absence is due to sickness, bodily injury, quarantine, required physical or dental examinations, or treatment, exposure to a contagious disease when continued work might jeopardize the health of others, illness in the immediate family of the employee which requires the care of the employee. All such absences, except those resulting from intemperance or immorality, shall be charged against the sick leave credit of the employee. Immediate family as used here shall consist of the husband or wife, as the case may be, the father or mother, or children of the employee whether half or full blood.

Each employee shall earn two and one half (2 ½) days after six (6) months of employment and two and one half (2 ½) days will be earned every six months thereafter with a maximum of five (5) days per year being earned.

The least amount of time taken for sick leave is one half (1/2) day.

Sick leave may not be accumulated for an indefinite period, and there is no maximum amount of sick leave, which may be accumulated.

The supervising board or official shall determine when a certificate from a doctor is required to substantiate the necessity of sick leave, provided that sick leave claimed for three days or less shall not require such certificate. Department heads and/or the board are responsible for the application of this provision so that there will be no abuse of sick leave privileges.

There will be no pay for unused sick leave upon resignation or retirement of an employee.

Sick leave may be used as maternity leave.

H. Long-Term Obligations

In the government-wide financial statements, and the proprietary funds types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as *debt service expenditures*.

I. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the municipality, which are either unusual in nature or infrequent in occurrence.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION The municipality uses the following budget practices:

1. The Town Clerk and Mayor prepare a proposed budget and submit same to the Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year.
2. A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after the publication of the call for the hearing.
4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
5. Budgetary amendments involving the transfer of funds from one department, program or function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated require the approval of the Board of Aldermen. These amended amounts are shown in the financial statements.
6. All budgetary appropriations lapse at the end of each fiscal year.
7. The budgets for the General Fund and Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended from time to time by the Board of Aldermen.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS The following individual funds had actual expenditures over budgeted appropriations for the year ended June 30, 2004:

Fund	Original Budget	Final Budget	Actual	Unfavorable Variance
Special Revenue Fund:				
Sales Tax	\$ 4,305	\$ 4,700	\$ 4,840	\$ 140

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

3. CASH AND CASH EQUIVALENTS

At June 30, 2004, the municipality has cash and cash equivalents (book balances) totaling \$373,123 as follows:

Demand Deposits	\$	267,579
Petty cash		200
Money market investment accounts		105,344
Total	\$	373,123

These deposits are stated at cost, which approximates 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 June 30, 2004, the municipality has \$377,610 in deposits (collected bank balances). These deposits are secured from risk by \$200,000 of federal deposit insurance and \$147,124 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3). The remaining balance of \$6,936 is not secured by the pledge of securities and is a violation of state law.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 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 municipality that the fiscal agent has failed to pay deposited funds upon demand. Other items concerning cash and cash equivalents re located at Note 1C.

4. RECEIVABLES

The receivables of \$42,246 at June 30, 2004, are as follows:

Class of receivable	General Fund	Special Revenue Fund	Proprietary Fund	Total
Taxes:				
Ad valorem	\$ 52	\$ -	\$ -	\$ 52
Sales and use	-	19,867	-	19,867
Franchise	5,776	-	-	5,776
Accounts	-	-	16,551	16,551
Total	\$ 5,828	\$ 19,867	\$ 16,551	\$ 42,246

5. INTERFUND RECEIVABLES/PAYABLES

The following due to/from balances exist due to payments made out of one fund that relate to the other fund. The balance in each respective due to/from account is expected to be paid within the current year.

	Due from	Due to
General Fund	\$ -	\$ 3,032
Proprietary Fund	3,032	-

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

6. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2004, for the primary government is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 2,600	\$ -	\$ -	\$ 2,600
Capital assets being depreciated				
Buildings	141,626	-	-	141,626
Improvements other than buildings	210,316	-	-	210,316
Machinery and equipment	166,493	3,035	-	169,528
Total capital assets being depreciated	<u>518,435</u>	<u>3,035</u>	<u>-</u>	<u>521,470</u>
Less accumulated depreciation for:				
Buildings	50,635	3,541	-	54,176
Improvements other than buildings	97,274	5,258	-	102,532
Equipment	64,437	18,210	-	82,647
Total accumulated depreciation	<u>212,346</u>	<u>27,009</u>	<u>-</u>	<u>239,355</u>
Total capital assets being depreciated, net	<u>\$ 306,089</u>	<u>\$ (23,974)</u>	<u>\$ -</u>	<u>\$ 282,115</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 15,540	\$ -	\$ -	\$ 15,540
Construction in progress	11,256	13,970	-	25,226
Total capital assets, not being depreciated	<u>26,796</u>	<u>13,970</u>	<u>-</u>	<u>40,766</u>
Capital assets being depreciated				
Improvements other than buildings	3,808,226	2,348	-	3,810,574
Machinery and equipment	36,522	1,286	-	37,808
Vehicles	17,907	-	-	17,907
Total capital assets being depreciated	<u>3,862,655</u>	<u>3,634</u>	<u>-</u>	<u>3,866,289</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,061,045	96,175	-	2,157,220
Machinery and equipment	2,358	1,407	-	3,765
Vehicles	4,156	3,581	-	7,737
Total accumulated depreciation	<u>2,067,559</u>	<u>101,163</u>	<u>-</u>	<u>2,168,722</u>
Total business-type assets being depreciated, net	<u>\$ 1,795,096</u>	<u>\$ (97,529)</u>	<u>\$ -</u>	<u>\$ 1,697,567</u>

Town of Merryville, Louisiana

Notes to the Financial Statements (Continued)

Depreciation expense of \$27,009 for the year ended June 30, 2004, was charged to the following governmental functions:

Public safety	\$ 16,716
General administration	10,293
Total	<u>\$ 27,009</u>

7. CONSTRUCTION COMMITMENTS

The municipality has active construction projects as of June 30, 2004. The Town of Merryville has an active sewer project as of June 30, 2004; the project is funded through a grant from the LCDBG (Louisiana Community Development Block Grant) program. The grant funds are being used to extend the existing sewer system. At year end the commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2002 LCDBG Sewer Project	<u>\$ 413,340</u>	<u>\$ 457,746</u>

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The Town of Merryville has a 3-cent sales tax that is collected and deposited into a special revenue sales tax fund. The money is then transferred out of the sales tax fund and split between the general fund and proprietary fund according to the percentage found in the sales tax resolution. These transfers are completed on a monthly basis and are routine transfers for the town.

	<u>Transfer in</u>	<u>Transfer out</u>
Special revenue fund	\$ -	\$ 248,996
General fund	177,991	-
Proprietary fund	71,005	-
Total	<u>\$ 248,996</u>	<u>\$ 248,996</u>

9. ACCOUNTS, SALARIES, AND OTHER PAYABLES

The payables of \$155,733 at June 30, 2004, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Proprietary Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Withholdings	\$ 2,711	\$ -	\$ 1,106	\$ -	\$ 3,817
Accounts	13,485	806	5,688	-	19,979
Contracts	-	-	-	131,937	131,937
Total	<u>\$ 16,196</u>	<u>\$ 806</u>	<u>\$ 6,794</u>	<u>\$ 131,937</u>	<u>\$ 155,733</u>

10. LONG-TERM OBLIGATIONS

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2004:

	<u>Bonded Debt</u>
Current portion	\$ 16,000
Long-term portion	331,375
Total	<u>\$ 347,375</u>

Town of Merryville, Louisiana

Notes to the Financial Statements (Concluded)

All municipal bonds outstanding at June 30, 2004, for \$347,345, are revenue bonds with maturities from 2004 to 2018 and the interest rate at 5%. Bond principal and interest payable in the next fiscal year are \$16,000 and \$17,368, respectively. The individual issues are as follows:

<u>Bond</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Payment Due</u>	<u>Interest to Maturity</u>	<u>Principal Outstanding</u>	<u>Funding Source</u>
Utilities Revenue Refunding Bonds Series 1978	550,000	5%	8/10/2018	153,735	347,375	Water revenues

<u>Year Ending June 30, 2004</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2005	\$ 16,000	\$ 17,368	\$ 33,368
2006	17,000	16,569	33,569
2007	18,000	15,719	33,719
2008	19,000	14,819	33,819
2009	20,000	13,869	33,869
2010-2018	257,375	75,391	332,766
Total	<u>\$ 347,375</u>	<u>\$ 153,735</u>	<u>\$ 501,110</u>

In accordance with R.S. 39:562, the municipality is legally restricted from incurring long-term bonded debt in excess of 35% of the assessed value of taxable property. At June 30, 2004, the statutory limit is \$764,266, and outstanding bonded debt totals \$347,375.

11. RESERVED RETAINED EARNINGS

The Proprietary Fund – The Utility Fund had reserved retained earnings available as follows:

Restricted assets:	
Reserve and contingency accounts	\$ 90,669
Customers' deposits	14,674
Total	<u>\$ 105,343</u>
Less:	
Liabilities payable from restricted assets:	
Customers deposits	\$ (14,021)
Current portion of bond	(16,000)
Accrued interest on bond	(15,424)
Total	<u>\$ (45,445)</u>
Reserved retained earnings	<u>\$ 59,898</u>

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Per Diem Paid to Board Members
Year Ended June 30, 2004

<u>Board Members</u>	<u>Total Paid</u>
Beaver Knighton	\$ 1,275
Ronald Perkins	1,275
Walter Bruns	1,275
David Eaves	1,275
Webb Stark	1,275
	<u>\$ 6,375</u>

Schedule of Prior Year Audit Findings
Year Ended June 30, 2004

Findings - Financial Statement Audit

There were no prior year audit findings reported as of June 30, 2003.

Schedule of the Corrective Action Plan
For the Current Year Audit Findings
Year Ended June 30, 2004

Current Year Audit Findings

The follow-up and corrective action taken on all current audit findings is presented in the summary schedule of current audit findings (Schedule 3).



Town of Merryville

Post Office Box #97
Merryville, LA 70653
Phone: (337) 825-8741

Foy W. Rhodes
Mayor

David E. Eason, Jr.
Mayor Pro-Tem

Harvie "Pee Wee" Dreddy
Chief of Police

Beverly Perry
Treasurer

Council Members:

Walter E. Brito
David F. Eason, Jr.
Beaver S. Knighton
Ronald K. Perkins
Webb Stark

October 18, 2004

Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third St.
Baton Rouge, LA 70801

Dear Mr. Theriot

Our recent examination of our financial statements disclosed that the Town's bank balances were not fully secured by pledged securities at year end. Our auditor recommended that I check this monthly to make sure that enough securities are pledged to cover our deposits. I will get a monthly statement from the bank and follow our auditor's recommendation.

If any further response is needed please notify me.

Sincerely,

Foy W. Rhodes,
Mayor, Town of Merryville

John A. Windham, CPA

A Professional Corporation

1620 North Pine Street
DeRidder, LA 70634
Tel: (337) 462-3211
Fax: (337) 462-0640

John A. Windham, CPA

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

The Honorable Foy W. Rhodes, Mayor
and the Members of the Board of Aldermen
Town of Merryville, Louisiana

I have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Merryville, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Town of Merryville, Louisiana's basic financial statements and have issued my report thereon dated September 20, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Merryville, Louisiana's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to the management of the Town of Merryville, Louisiana, in a separate letter dated September 20, 2004.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Merryville, Louisiana's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

The Honorable Foy W. Rhodes, Mayor
Town of Merryville, Louisiana
Page 2

This report is intended solely for the information and use of management, others within the organization, the Board of Aldermen, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties, although under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Jeffrey D. Windham, CPA

DeRidder, Louisiana
September 20, 2004

John A. Windham, CPA

A Professional Corporation

1620 North Pine Street
DeRidder, LA 70634
Tel: (337) 462-3211
Fax: (337) 462-0640

John A. Windham, CPA

The Honorable Foy W. Rhodes, Mayor
The Honorable Members of the Board of Aldermen
Town of Merryville, Louisiana

In planning and performing my audit of the financial statements of the Town of Merryville, Louisiana for the year ended June 30, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted certain matters involving internal control and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control that, in my judgment, could adversely affect the Town of Merryville, Louisiana's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Other Comments and Recommendations

Bank deposits not fully secured by pledged securities

Finding:

As of June 30, 2004 the Town of Merryville has \$354,060 on deposit with Sabine State Bank, these deposits were secured by \$200,000 of federal deposit insurance along with \$146,124 of pledged securities market value. The total collateral was \$347,124 against the \$354,060 of deposits, thus leaving \$6,936 not secured by federal deposit insurance or pledged securities. This unsecured amount is a violation of state law.

Recommendation:

I recommend that the mayor contact the Sabine State Bank and have them monitor the securities that they pledge to secure the Town's deposits. The mayor should also get monthly pledged security statements and compare these to actual deposits to assure that proper coverage is maintained at all times during the year.

A material weakness is a reportable 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 errors or fraud 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.

My consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the June 30, 2004 financial statements, and this report does not affect my report on those financial statements dated September 20, 2004. I have not considered the internal control since the date of my report.

The Honorable Foy W. Rhodes, Mayor
The Honorable Members of the Board of Aldermen
Town of Merryville, Louisiana
Page 2

This report is intended solely for the information and use of the Board of Aldermen, management, others within the administration, and the Legislative Auditor; and is not intended to be and should not be used by anyone other than these specified parties.

John D. Windham, CPA

DeRidder, Louisiana
September 20, 2004