

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

FINANCIAL 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 2/5/05

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# HILL, INZINA & COMPANY

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Commissioners  
Morehouse Sales and Use Tax Commission  
Bastrop, Louisiana

We have audited the accompanying financial statements of the governmental activities and the major fund of Morehouse Sales and Use Tax Commission (the "Commission"), as of and for the year ended June 30, 2004, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, the Commission has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2004 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements the collectively comprise the Commission's basic financial statements. Management's discussion and analysis and the budgetary comparison schedule, presented as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hill, Arzoo & Co.*

November 15, 2004

REQUIRED SUPPLEMENTARY INFORMATION (Part 1 of 2)

As management of Morehouse Sales Tax and Use Tax Commission ( the "Commission"), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2004. This management's discussion and analysis ("MD&A") is designed to provide an objective and easy to read analysis of the Commission's financial activities based on currently known facts, decisions, or conditions. It is intended to provide readers with a broad overview of the Commission's finances. It is also intended to provide readers with an analysis of the Commission's short-term and long-term activities based on information presented in the financial report and fiscal policies that have been adopted by the Commission. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the Commission's financial activity, identify changes in the Commission's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

This is the first year that the Commission has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB)Statement No. 34. Because this new reporting model changes significantly not only the presentation of financial data, but also the manner in which the information is recorded, prior year comparative information for this reporting period's MD&A has not been included. The omission of this comparative information is unavoidable and unfortunately puts the reader in a less than desirable position. In preparing the information summarized below, we have tried to keep in mind this disadvantage by expanding on the narrative with our opinion of the changes from one year to the next.

As with other sections of this financial report, the information contained within this MD&A should be considered only as part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the notes to financial statements and the other required supplementary information ("RSI") that is provided in addition to this MD&A.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements consist of the following components:

1. government-wide financial statements,
2. fund financial statements,
3. notes to financial statements, and
4. other required supplementary information, which is in addition to the basic financial statements themselves.

## 1. Government-Wide Financial Statements

Government-wide financial statements are designed by GASB Statement No. 34 to change the way in which governmental financial statements are presented. It now provides readers for the first time a concise "entity-wide" statement of net assets and statement of activities, seeking to give the user of the financial statements a broad overview of the Commission's financial position and results of operations in a manner similar to a private-sector business.

- A. The statement of net assets presents information on all of the Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The difference between the assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or weakening.
- B. The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenue).

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded its liabilities at the close of the most recent fiscal year by \$120,928 (net assets). Of this amount, \$105,736 or 87%, is unrestricted net assets and may be used to meet the Commission's ongoing obligations to citizens and creditors.

13% of the Commission's net assets reflect its investment in capital assets (e.g., furniture and equipment). The Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

### Governmental Activities

The governmental activities of the Commission include general government only. Program revenues consist of charges for services (99% of total revenues) that fund most of the governmental activities. Revenues increased in the current fiscal year by \$46,991 due to an increase in tax collections which ultimately resulted in an increase in the Commission's charges for services.

100% of the Commission's expenditures relate to the general government function typically associated with governments. General government includes personal services; operating services; professional services; and travel, education, and audit.

## 2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are governmental funds. Governmental funds are used to account for all of the Commission's basic services and are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission maintains one individual governmental fund - the General Fund - which is considered a major fund. There are no nonmajor governmental funds.

As of the end of the current fiscal year, the Commission's governmental fund reported ending unreserved and undesignated fund balance of \$105,736, increasing \$15,772 during the current fiscal year.

## 3. Notes to Financial Statements

Notes to financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.



#### 4. Other Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information comprised of the budgetary comparison schedule. The Commission adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. There were no significant budget variances in the General Fund for the fiscal year ended June 30, 2004.

#### Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Commission's budget for the 2005 fiscal year:

During the past several years, the Louisiana State Legislator has passed several exemptions that have continued to erode the sales tax base in Morehouse Parish that has resulted in a higher percentage being charged for the Commission's services. The Commission increased its staff by one person in the past few years which has increased the total budget but has also increased the overall efficiency of the office. During the fiscal year ended June 30, 2004, an in-house auditor was hired requiring additional expenditures in travel, education, and audit but should prove to be an asset in the near future.

There is anticipation that one of the local taxing entities will levy an additional tax to be levied in the next fiscal year; therefore, we have increased several of the budget line items to prepare for the anticipated increase in revenues and expenditures.

#### Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ron Carter, Administrator, Post Office Box 672, Bastrop, Louisiana 71221-0672.

BASIC FINANCIAL STATEMENTS

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES - GENERAL FUND  
June 30, 2004

ASSETS

Cash	\$	6,053
Investments		100,000
Cash equivalents - restricted		42,024
Capital assets, net of depreciation		<u>15,192</u>
Total assets	\$	<u>163,269</u>

LIABILITIES

Accrued expenses	\$	438
Payable from restricted assets		<u>41,903</u>
Total liabilities	\$	<u>42,341</u>

NET ASSETS

Invested in capital assets	\$	15,192
Unrestricted		<u>105,736</u>
Total net assets	\$	<u>120,928</u>
Total liabilities and net assets	\$	<u>163,269</u>

See notes to financial statements.

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES -GENERAL  
FUND

For the Year Ended June 30, 2004

Expenses:

General government:

Personal services	\$	126,943
Operating services		33,254
Professional services		10,272
Travel, education, and audit		12,036
Depreciation		<u>5,175</u>
Total expenses	\$	187,680

Program revenues:

Charges for services		<u>209,273</u>
Net program revenue	\$	21,593

General revenues:

Interest and miscellaneous		<u>1,174</u>
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Change in net assets \$ 22,767

Net assets - beginning 89,964

Cumulative effect of change in accounting principle 8,197

Net assets - ending \$ 120,928

See notes to financial statements.

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

BALANCE SHEET - GOVERNMENTAL FUND - GENERAL FUND  
June 30, 2004

ASSETS

Cash	\$	6,053
Investments		100,000
Cash equivalents - restricted		<u>42,024</u>
Total assets	\$	<u>148,077</u>

LIABILITIES AND FUND BALANCE

Liabilities:		
Accrued expenses	\$	438
Payable from restricted assets		<u>41,903</u>
Total liabilities	\$	42,341
Fund balance - unreserved and undesignated		<u>105,736</u>
Total liabilities and fund balance	\$	<u>148,077</u>

See notes to financial statements.

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - GOVERNMENTAL FUND - GENERAL FUND  
For the Year Ended June 30, 2004

Revenues:		
Charges for services	\$	209,273
Interest and miscellaneous		<u>1,174</u>
Total revenues	\$	<u>210,447</u>
Expenditures:		
Current:		
General government:		
Personal services	\$	126,943
Operating services		33,254
Professional services		10,272
Travel, education, and audit		12,036
Capital outlay		<u>12,170</u>
Total expenditures	\$	<u>194,675</u>
Net change in fund balance	\$	15,772
Fund balance - beginning		<u>89,964</u>
Fund balance - ending	\$	<u><u>105,736</u></u>

See notes to financial statements.

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2004

Total fund balance - governmental fund balance sheet	\$ 105,736
Amounts reported for governmental activities in statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	<u>15,192</u>
Total net assets - government-wide statement of net assets	<u>\$ 120,928</u>

See notes to financial statements.

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

RECONCILIATION OF GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

Net change in fund balance - governmental fund \$ 15,772

Amounts reported for governmental activities in statement of  
activities are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlays (\$12,170) exceeded  
depreciation expense (\$5,175) in the current period.

6,995

Change in net assets - government-wide statement of activities

\$ 22,767

See notes to financial statements.



MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2004

Note 1. Organization and Summary of Significant Accounting Policies

Morehouse Sales and Use Tax Commission (the "Commission") was created by joint agreement of the sales and use taxing bodies of Morehouse Parish, Louisiana, on May 7, 1992, pursuant to Article VII, Section 3, of the Louisiana Constitution. The purpose of the Commission is to provide joint collection, enforcement, and administration of sales and use tax within Morehouse Parish. The governing body of the Commission consists of a non-compensated nine member Board of Commissioners which are appointed as follows:

	<u>Members Appointed</u>
Morehouse Parish School Board	2
Morehouse Parish Police Jury	1
Sheriff of Morehouse Parish	1
City of Bastrop	2
Village of Mer Rouge	1
Village of Bonita	1
Village of Collinston	1

Each appointee of Morehouse Parish School Board and City of Bastrop, as well as the appointees of Morehouse Parish Police Jury and Sheriff of Morehouse Parish, have one full vote as a commissioner and the appointees from Village of Mer Rouge, Village of Bonita, and Village of Collinston have one-third vote each as a commissioner. Each appointed commissioner serves a one year term ending on June 30th of each year.

On December 21, 1999, the Commission entered into a joint agreement with Morehouse Parish Tourism Commission to collect, enforce, and administer the respective hotel/motel occupancy tax as authorized and levied by Morehouse Parish Tourism Commission within the boundaries of Morehouse Parish. The joint agreement also authorizes the Commission to institute suits in the name of Morehouse Parish Tourism Commission to enforce the collection of such tax.

The joint agreement with Morehouse Parish Tourism Commission became effective on January 1, 2000 and continues in effect until either party serves a ninety day written notice of cancellation. For services performed by the Commission under the joint agreement, Morehouse Parish Tourism Commission will pay the Commission \$50 per month for collection of ten and under account transactions of any tax activity. If the number of tax

## NOTES TO FINANCIAL STATEMENTS

account activities exceeds the maximum of ten accounts, the collection fee will be determined at the time of renewal of the joint agreement.

The more significant of the Commission's accounting policies are described below:

### Financial Reporting Entity:

The Commission is a jointly appointed stand-alone government, as it meets neither the criteria of a primary government, nor a component unit, since its governing board is not elected, and it is not financially accountable or fiscally dependent upon any of the constituent governments.

### Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Commission as a whole.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities summarizing the fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include charges for services which report charges to users of the Commission's services. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included within the program revenues are reported as general revenues.

### Fund Financial Statements:

Fund financial statements are provided for governmental funds with the major governmental fund reported in a single column.

### Basis of Accounting, Measurement Focus, and Financial Statement Presentation:

The financial statements of the Commission are prepared in accordance with generally accepted accounting principles (GAAP). The Commission's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Commission's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

## NOTES TO FINANCIAL STATEMENTS

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

Government fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. In general, revenues are recognized when cash is received. Expenditures are recorded when the related fund liability is incurred.

### Fund Type and Major Fund:

The Commission reports the following major governmental fund:

General Fund - the general operating fund of the Commission and accounts for all financial resources.

### Budgets and Budgetary Accounting:

The budget for the General Fund is proposed by the administrator and formally adopted by the Board of Commissioners. The annual budget is prepared in accordance with the basis of accounting utilized by the fund. Budgetary amendments, involving the transfer of funds from one function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated, require approval of the Commissioners. All annual appropriations lapse at fiscal year end.

The budget for the General Fund was adopted by the Commissioners on May 8, 2003. No amendments were made to the budget.

### Encumbrances:

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Commission.

### Use of Estimates:

The preparation of financial statements 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.

## NOTES TO FINANCIAL STATEMENTS

### Cash and Cash Equivalents:

Cash includes amounts in interest-bearing demand deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Commission may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

### Investments:

Investments are limited by Louisiana Revised Statute 33:2955. If the original maturities of time deposits exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Nonparticipating investment contracts, generally certificates of deposit, are reported at cost, which approximates market value.

### Restricted Assets and Liabilities Payable From Same:

Restricted assets are reported for property taxes paid under protest. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as needed.

### Capital Assets and Depreciation:

The Commission's furniture and equipment with useful lives of more than one year are stated at historical cost. Capital assets are comprehensively reported in the government-wide financial statements.

The Commission generally capitalizes assets with cost of \$1,000 or more as purchase outlays occur. The costs of normal maintenance and repairs not adding to an asset's value or materially extending its useful life are not capitalized. Capital assets are depreciated using the straight-line method over estimated useful lives of five years. Upon disposition of capital assets, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

### Accumulated Compensated Absences:

Allowable annual vacation and sick leave is prescribed by the Commission's personnel policy, based on length of continuous employment by the Commission, accrued on an employment anniversary basis, and accrued to specified maximums.

## NOTES TO FINANCIAL STATEMENTS

Annual vacation time must be taken in the year following that in which it was accrued and cannot be carried over and accumulated from year to year. If an employee is unable to utilize his/her full vacation during the year following that in which it was accrued, the unused portion will be credited as extended sick leave. Therefore, there is no liability recorded for unused vacation time or for nonvesting accumulating rights to receive sick pay benefits.

### Equity Classifications:

In the government-wide financial statements, equity is classified as net assets and further classified as invested in capital assets (consists of capital assets net of accumulated depreciation) or unrestricted (consists of all other assets).

In the fund financial statements, governmental fund balance is classified as unreserved and undesignated.

### Revenue Recognition:

Fees for the collection of sales and use taxes are recorded when the Commission is entitled to the funds which is normally the same month the taxes are collected by the Commission.

### Note 2. Cash, Cash Equivalents, and Investments

As of June 30, 2004, the Commission had cash, cash equivalents, and investments (book balances) as follows:

Interest-bearing demand deposits	\$ 5,953
Investments	142,024
Petty cash	<u>100</u>
	<u>\$ 148,077</u>

The deposits are stated at cost, which approximates market. Under state law, the 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 by the Commission or its agent in the name of the Commission in a holding or custodial bank that is mutually acceptable to both parties.

## NOTES TO FINANCIAL STATEMENTS

As of June 30, 2004, the Commission had \$464,522 in deposits (collected bank balances) which were secured from risk by \$202,024 of federal deposit insurance (GASB Category 1) and \$262,498 of pledged securities held by the pledging financial institution's trust department or its agent in the Commission's name (GASB Category 2).

There were no repurchase or reverse repurchase agreements as of June 30, 2004.

### Note 3. Capital Assets

Capital asset and depreciation activity for the year ended June 30, 2004 of the Commission is as follows:

	Balance July 1, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2004</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 23,036	\$ 12,170	\$ -	\$ 35,206
Less accumulated depreciation:				
Furniture and equipment	<u>( 14,839)</u>	<u>( 5,175)</u>	<u>-</u>	<u>( 20,014)</u>
 Total capital assets being depreciated, net	 <u>\$ 8,197</u>	 <u>\$ 6,995</u>	 <u>\$ -</u>	 <u>\$ 15,192</u>

### Note 4. Pension Plan

All full-time employees of the Commission are members of Municipal Employees' Retirement System of Louisiana (the "System"), a cost-sharing, multiple-employer, defined benefit pension plan administered by a separate board of trustees. The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Commission are members of Plan A.

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 Commission funds are eligible to participate in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of creditable service, at or after age 55 with at least 25 years of creditable service, or at any age with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3% 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 produces the highest average. Employees who terminate

## NOTES TO FINANCIAL STATEMENTS

with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Municipal Employees' Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (225) 925-4810.

### Funding Policy:

Under Plan A, members are required by state statute to contribute 9.25% of their annual covered salary and the Commission is required to contribute at an actuarially determined rate. The current rate is 11.0% of annual covered payroll. Contributions to the System also include 1/4 of 1% (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the Commission are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Commission's contributions to the System under Plan A for the years ended June 30, 2004, 2003, and 2002 were \$10,988, \$5,849, and \$6,117, respectively, equal to the required contributions for each year.

### Note 5. Deferred Compensation Plan

The Commission offers all full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency except for a one-time withdrawal which is subject to certain restrictions

All assets of the plan, including all deferred amounts, property, and rights purchased with deferred amounts, and all income attributable to such deferred amounts, property, or rights, are held in a qualified trust, custodial account, or annuity contract for the exclusive benefit of the participants and beneficiaries. The assets are not subject to the claims of the Commission's creditors nor can they be used by the Commission for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

NOTES TO FINANCIAL STATEMENTS

Note 6. Changes in Agency Fund Balances

The following is a summary of the sales and use tax and hotel/motel occupancy tax collected and paid to constituents and the General Fund of the Commission for the year ended June 30, 2004:

Collections:	
Sales and use tax	\$ 13,421,717
Hotel/motel occupancy tax	<u>41,540</u>
	<u>\$ 13,463,257</u>
Remittances:	
Taxes distributed:	
Morehouse Parish School Board	\$ 5,238,624
Morehouse Parish Police Jury	1,448,947
Morehouse Parish Sheriff	1,397,133
City of Bastrop	4,850,365
Village of Mer Rouge	184,715
Village of Bonita	31,708
Village of Collinston	39,760
Morehouse Parish Tourism Commission	40,940
Refunded sales and use tax	17,426
Refunded state sales tax	34
Reimbursed Commission's costs	917
Uncollected insufficient checks	3,415
Collection fee to Morehouse Sales and Use Tax Commission	<u>209,273</u>
Total remittances	<u>\$ 13,463,257</u>

Note 7. Contingencies and Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for all risks of loss, including workers' compensation and employee health and accident insurance. There were no significant reductions in the insurance coverage during the fiscal year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior fiscal years.



## NOTES TO FINANCIAL STATEMENTS

As of the date of this report, the Commission's administrator has been named as the defendant in a lawsuit for refund of sales and use taxes paid to the Commission under protest. The amount paid under protest is being held in escrow by the Commission and is reported as restricted assets with an offsetting liability as of June 30, 2004. There is no insurance applicable to claims of this nature.

An offer has been made by the Commission, as of the date of this report, to refund a portion of the sales and use taxes paid under protest but a settlement has not been reached.

### Note 8. Change in Accounting Principle and Commission's Policies

During the year ended June 30, 2004, the Commission adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In accordance with GASB Statement No. 34, capital assets not previously recorded in governmental activities were recorded in the government-wide financial statements. Depreciation that would have impacted the change in net assets in prior years related to these capital assets was also considered. The cumulative effect on beginning net assets of these changes was computed as follows:

Increase (decrease) in capital assets as of	
July 1, 2003	\$ 23,036
(Increase) decrease in accumulated depreciation	
as of July 1, 2003	<u>( 14,839)</u>
	<u>\$ 8,197</u>

REQUIRED SUPPLEMENTARY INFORMATION (Part 2 of 2)

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - GENERAL FUND  
For the Year Ended June 30, 2004

	<u>Budget</u>			Variance -
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
Revenues:				
Charges for services	\$ 201,914	\$ 201,914	\$ 209,273	\$ 7,359
Interest and miscellaneous	<u>1,800</u>	<u>1,800</u>	<u>1,174</u>	<u>( 626)</u>
Total revenues	<u>\$ 203,714</u>	<u>\$ 203,714</u>	<u>\$ 210,447</u>	<u>\$ 6,733</u>
Expenditures:				
Current:				
General government:				
Personal services:				
Salaries	\$ 114,889	\$ 114,889	\$ 100,684	\$ 14,205
Retirement	12,044	12,044	10,988	1,056
Group health insurance	14,460	14,460	13,282	1,178
Payroll taxes	1,815	1,815	1,498	317
Workers' compensation insurance	976	976	491	485
Unemployment insurance	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total personal services	<u>\$ 145,184</u>	<u>\$ 145,184</u>	<u>\$ 126,943</u>	<u>\$ 18,241</u>
Operating services:				
Dues and subscription	\$ 1,000	\$ 1,000	\$ 975	\$ 25
Printed forms	2,500	2,500	348	2,152
Postage and permits	4,400	4,400	2,542	1,858
Telephone	5,000	5,000	5,888	( 888)
Office rent and utilities	9,500	9,500	9,680	( 180)
Repairs and maintenance	3,200	3,200	3,856	( 656)
Office supplies	2,400	2,400	7,820	( 5,420)
Computer upgrades	<u>3,000</u>	<u>3,000</u>	<u>2,145</u>	<u>855</u>
Total operating services	<u>\$ 31,000</u>	<u>\$ 31,000</u>	<u>\$ 33,254</u>	<u>\$ ( 2,254)</u>

(continued)

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - GENERAL FUND  
(Continued)

For the Year Ended June 30, 2004

	<u>Original</u>	<u>Budget Final</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Professional services:				
Bank charges	\$ 30	\$ 30	\$ 12	\$ 18
Legal	7,000	7,000	5,878	1,122
Audit	3,000	3,000	2,844	156
Insurance	<u>3,500</u>	<u>3,500</u>	<u>1,538</u>	<u>1,962</u>
Total professional services	<u>\$ 13,530</u>	<u>\$ 13,530</u>	<u>\$ 10,272</u>	<u>\$ 3,258</u>
Travel, education, and audit	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 12,036</u>	<u>\$( 3,036)</u>
Capital outlay	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 12,170</u>	<u>\$( 7,170)</u>
Total general fund expenditures	<u>\$ 203,714</u>	<u>\$ 203,714</u>	<u>\$ 194,675</u>	<u>\$ 9,039</u>
Net change in fund balance	\$ -	\$ -	\$ 15,772	\$ 15,772
Fund balance - beginning	<u>30,000</u>	<u>30,000</u>	<u>89,964</u>	<u>59,964</u>
Fund balance - ending	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 105,736</u>	<u>\$ 75,736</u>

# HILL, INZINA & COMPANY

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

Board of Commissioners  
Morehouse Sales and Use Tax Commission  
Bastrop, Louisiana

We have audited the financial statements of the governmental activities and the major fund of Morehouse Sales and Use Tax Commission (the "Commission"), as of and for the year ended June 30, 2004, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 15, 2004. We conducted our 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Commission'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 2004-1.

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 caused by error 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. 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

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are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Commission in a separate letter dated November 15, 2004.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 or other matters that are required to be reported under *Government Auditing Standards*. We also noted certain additional matters that we reported to management of the Commission in a separate letter dated November 15, 2004.

This report is intended for the information and use of management and the Board of Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Anzani & Co.*

November 15, 2004

MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
WITH MANAGEMENT'S RESPONSE AND PLANNED CORRECTIVE ACTION  
For the Year Ended June 30, 2004

We have audited the financial statements of the governmental activities and the major fund of Morehouse Sales and Use Tax Commission (the "Commission"), as of and for the year ended June 30, 2004, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 15, 2004. We conducted our 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. Our audit of the financial statements as of June 30, 2004 resulted in an unqualified opinion.

Section I - Summary of Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control

Material Weaknesses  Yes  No      Reportable Conditions  Yes  No

Compliance

Material to Financial Statements  Yes  No

Section II - Financial Statement Findings

2004-1    Inadequate Segregation of Duties (initially cited in first audit conducted by our firm as of and for the year ended June 30, 1994)

Criteria:            Adequate segregation of duties is essential to a proper internal control structure.

Condition:          The segregation of duties is inadequate to provide effective internal control.

Cause:                The condition is due to economic and space limitations.

Effect:                Not determined.

Recommendation:    No action is recommended.

Management's  
response and  
planned cor-  
rective action:

We concur in the finding, but it is not economically feasible nor does space allow for corrective action to be taken.



MOREHOUSE SALES AND USE TAX COMMISSION  
BASTROP, LOUISIANA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
For the Year Ended June 30, 2004

Section I - Financial Statement Findings

2003-1 Inadequate Segregation of Duties

Adequate segregation of duties is essential to a  
proper internal control.

Unresolved - 2004-1.

Section II - Management Letter

None issued.

# HILL, INZINA & COMPANY

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Board of Commissioners  
Morehouse Sales and Use Tax Commission  
Bastrop, Louisiana

We have audited the financial statements of the governmental activities and the major fund of Morehouse Sales and Use Tax Commission (the "Commission"), as of and for the year ended June 30, 2004, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 15, 2004. We conducted our 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.

As part of our examination, we have issued our report on internal control over financial reporting and on compliance and other matters dated November 15, 2004.

During the course of our examination, we became aware of the following matters which represent immaterial deviation of compliance and other matters or suggestions for improved internal control.

## 2004-1 Personnel Policies and Official Minutes

Criteria: The Commission's personnel policy relating to vacation for all employees states that the allowable annual vacation is based on length of continuous full-time employment by the Commission and is accrued on an employment anniversary basis.

The personnel policy also states that compensation time will be granted to supervisory personnel in lieu of overtime pay and that such time will be properly documented.

Personnel policies do not address the payment of dues, licenses, and continuing education on the administrator's behalf who is a certified public accountant.

All official proceedings of the Commission's board should be documented in the official minutes and conducted at meetings of the entire board.

**Condition:** An employee was hired by the Commission on December 15, 2003 and was permitted to take five vacation days before June 30, 2004 which was well before his employment anniversary date.

The administrator stated that compensation time is not documented for supervisory personnel but all employees are allowed to take personal time as needed with the administrator's approval.

The Commission paid approximately \$185 of annual membership and licensing dues on the administrator's behalf to societies and boards organized for certified public accountants. Also, approximately \$700 was expended by the Commission for the administrator to attend an unrequired two-day continuing education course entitled 'Tax Preparers Clinic For New Accountants and Paraprofessional'.

The administrator informed that the Commission paying his related membership dues was agreed to at his employment but such is not documented as being formally approved by the Board of Commissioners. He also stated that the purpose of his attending the unrequired continuing education course was to improve his ability to read and understand tax law.

An ordinance related to an agreement for legal and related services was certified as being adopted by the Commission's board on January 13, 2004 but a reading of this meeting's minutes made no reference to the adoption of the ordinance but only approval by the Board of Commissioners for the administrator to hire an attorney.

**Cause:** The Commission is not requiring adherence to its personnel policies nor is formal action of the Board of Commissioners being documented in the official minutes.

**Effect:** The personnel policies have been circumvented and formal action of the Board of Commissioners is not being formally documented for future reference.

**Recommendation:** The Board of Commissioners should require strict adherence to the personnel policies or revise the policies to meet those actually being practiced. Also, the Board should consider including within the personnel policies the Commission's payment of employees' job related membership and dues.

Care should be taken that all formal action of the Board of Commissioners is properly documented in the official minutes and conducted at meetings of the entire board.

Management's  
response and  
planned cor-  
rective action:

In the future, any employee hired will be required to be employed one year prior to being granted vacation leave unless circumstances warrant otherwise, then the additional leave policy outlined in the personnel policy will be followed.

Documentation will be made henceforth of compensation time earned and used by the administrator, the only eligible supervisory employee of the Commission.

The administrator will pay for all membership and licensing dues to societies and boards organized for certified public accountants and unrequired continuing education courses until such time that the Board of Commissioners formally approves such payments.

More specific wording will be used to record the formal actions of the Board of Commissioners in the official minutes.

2004-2 Internal Revenue Service Requirements

Criteria: Internal Revenue Service regulations require that an annual reporting be made of payments of \$600 or more for services performed for the Commission by persons not treated as its employees and for all amounts paid to attorneys.

Also required by the Internal Revenue Service is the Commission's depositing payroll related taxes on a monthly payroll basis by the 15<sup>th</sup> or the next banking day of the subsequent month.

Condition: An individual, not considered as an employee of the Commission, was paid \$2,400 for janitorial services during the 2003 calendar year with the Commission making no annual reporting of these payments or payments to attorneys to the Internal Revenue Service.

**Cause:** The Commission's administrator was not aware of the annual reporting requirements of the Internal Revenue Service and the late payroll tax deposits were due to the administrator's oversight.

**Effect:** The Commission may be subject to penalty and interest imposed by the Internal Revenue Service for not filing the required annual reports and for untimely depositing the payroll taxes.

**Recommendation:** Annual reports required by the Internal Revenue Service should be correctly and promptly filed. Payroll tax deposits should be timely made.

**Management's response and planned corrective action:** Steps have been taken to ensure that all annual reports required by the Internal Revenue Service are correctly and promptly filed. Also, monthly and annual checklists are being utilized to ensure that all payroll tax deposits are made timely.