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# CITY OF LEESVILLE, 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 2-16-05

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

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PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

The Honorable Jim Shapkoff, Jr., Mayor  
And Members of the City Council  
City of Leesville, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Leesville, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Leesville'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 audits provide a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Leesville, Louisiana, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Leesville, Louisiana, as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our 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, each major fund, and the aggregate remaining fund information for the primary government of the City of Leesville, Louisiana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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PAYNE, MOORE & HERRINGTON, LLP

The Honorable Jim Shapkoff, Jr., Mayor  
And Members of the City Council  
City of Leesville, Louisiana

As discussed in Note 1 to the basic financial statements, the City of Leesville adopted, effective July 1, 2003, the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and statement No. 38, *Certain Financial Statement Note Disclosures*. Adoption of these statements results in a change in the format and content of the basic financial statements and additional note disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the City of Leesville, Louisiana, internal control over financial reporting and on our 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 our audit.

The management's discussion and analysis and budgetary comparison information presented on pages 3 through 10 and 46 through 48 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Leesville, Louisiana's basic financial statements. The accompanying Unaudited Schedule of Insurance in Force listed under supplemental information in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*Payne, Moore & Herrington, LLP*

Certified Public Accountants

December 23, 2004

**REQUIRED SUPPLEMENTAL INFORMATION –  
PART I  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

Our discussion and analysis of the City of Leesville's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 12.

**Financial Highlights**

- The City's new sales tax went into effect in April 2004. It is expected to generate about a million dollars per year for twelve years for the benefit of the police and fire departments.
- The City issued \$1,800,000 in general obligation bonds for street improvements.
- The general fund ended the year with a fund balance of \$87,321.

**Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14, respectively) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

**Reporting on the City as a Whole**

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – *the difference between assets and liabilities* – as one way to measure the City's financial health, or financial position. Over time increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including police, fire, public works, parks and recreation, and general administration. Sales taxes, property taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Reporting the City's Major Funds**

Our analysis of the City's major funds begins on page 7. The fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and/or bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds, which 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City'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 City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation accompanying the fund financial statements.
- Proprietary funds – When the City charges customers for services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use an internal service fund (the other component of proprietary funds) to report activities that provide services to the City's other programs and activities.

**The City as a Whole**

The following is a condensed summary of the City's net assets as of June 30, 2004. Future management's *discussion and analysis will provide comparative information to enhance the user ability to evaluate operating results of the City.* However, since this is the initial year for adopting this new reporting format, comparative information is not available.

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Table 1  
Net Assets**

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	3,919,439	718,494	4,637,933
Capital assets	12,411,945	11,141,086	23,553,031
<b>Total Assets</b>	<b>16,331,384</b>	<b>11,859,580</b>	<b>28,190,964</b>
Long-term debt outstanding	3,317,212	3,958,121	7,275,333
Other liabilities	413,722	617,988	1,031,710
<b>Total Liabilities</b>	<b>3,730,934</b>	<b>4,576,109</b>	<b>8,307,043</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,473,920	7,806,086	15,280,006
Restricted	2,222,108	96,846	2,318,954
Unrestricted (deficit)	2,904,422	(619,461)	2,284,961
<b>Total Net Assets</b>	<b>12,600,450</b>	<b>7,283,471</b>	<b>19,883,921</b>

Table 2 presented on the following page is a condensed summary of the changes in net assets for the year ending June 30, 2004. As a whole the City's net assets increased by \$260,988 or 1%.

**Governmental Activities**

Net assets of governmental activities increased by \$322,425 or 3% due to transfers from business-type activities. Without these transfers, governmental activities net assets would have decreased by \$150,027.

**Business-type Activities**

Net assets of business-type activities decreased by \$61,437, or 1%. However, before transfers to governmental activities, business-type activities increased by \$411,015. Unrestricted net assets can be used to finance the day-to-day activities of the City. The deficit in unrestricted net assets of the business-type activities arose primarily because of current and prior year transfers to governmental activities.

See independent auditor's report.



**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Table 2  
Changes in Net Assets**

	Governmental Activities	Business-type Activities	Total Primary Government
<b>Revenues</b>			
Program revenues			
Charges for services	1,165,347	1,503,614	2,668,961
Operating grants and contributions	171,797		171,797
Capital Grants and contributions	109,378	202,682	312,060
General revenues			
Sales taxes	2,427,145		2,427,145
Other taxes	735,419	330,397	1,065,816
Other general revenues	73,553	1,864	75,417
Total Revenues	4,682,639	2,038,557	6,721,196
<b>Program expenses</b>			
General government	739,050		739,050
Public safety	2,233,789		2,233,789
Public works	903,416		903,416
Economic development	557,247		557,247
Culture and recreation	308,946		308,946
Interest on long-term debt	90,218	138,608	228,826
Water		862,474	862,474
Sewer		626,460	626,460
Total Expenses	4,832,666	1,627,542	6,460,208
Excess (Deficiency) before transfers	(150,027)	411,015	260,988
Transfers	472,452	(472,452)	-
Increase (Decrease) in Net Assets	322,425	(61,437)	260,988

**The City's Funds**

As the City completed the year, its governmental funds, as presented in the balance sheet on page 16, reported a combined fund balance of \$3,488,459, for increase of \$2,254,604 over the prior year. The General Fund's fund balance increased to \$87,321 from a zero balance in the prior year. In addition, the City issued \$1,800,000 in general obligation bonds for street improvements. Of this amount, \$1,776,393 in the 2004 Street Improvement Capital Project Fund remained unspent at year-end. Fund balance in this fund will decrease in future years as bond proceeds are expended.

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the budget several times as new information became available. Overall the actual increase in fund balance exceeded the budgeted increase by \$60,425. Even after adjustments to the budget, actual charges to expenditures exceeded budgeted expenditures by \$87,618 due to the purchase of additional machinery and equipment on credit. Neither this purchase nor the related debt proceeds were budgeted.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of the fiscal year, the City had \$23,553,031 invested in a broad range of capital assets, including land, buildings and improvements, infrastructure (roads, bridges and drainage systems), water treatment and distribution systems, and sewer collection and treatment systems. This amount represents a net decrease (including additions and deductions) of \$538,864. Capital assets are summarized in the following table:

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Table 3  
Capital Assets at Year-End  
Net of Depreciation**

	Governmental Activities	Business-type Activities	Total Primary Government
Land	228,856	157,251	386,107
Construction in progress		344,340	344,340
Buildings and improvements	7,834,101		7,834,101
Plant and system		10,583,037	10,583,037
Equipment and vehicles	567,218	56,458	623,676
<i>Infrastructure</i>	3,781,770		3,781,770
Totals	12,411,945	11,141,086	23,553,031

This year's major additions included \$174,538 in vehicles and equipment and \$344,340 in construction in progress for water system improvements. Near the end of the current year, the City issued \$1,800,000 in general obligation bonds to finance street improvements. This project was still in the preliminary phase at year-end.

**Debt**

At year-end, the City had \$7,275,333 in bonds, notes, and other debt outstanding verses \$5,960,381 last year – an increase of 22% as shown in Table 4.

**Table 4  
Outstanding Debt at Year-End**

	Governmental Activities	Business-type Activities	Total Primary Government
<b>General Obligation Debt</b> (backed by the City)			
General obligation bonds	2,380,000	3,335,000	5,715,000
Compensated absences	155,580	19,588	175,168
Capitalized leases	288,758		288,758
Notes payable	32,874	71,787	104,661
Customer guaranteed deposits		187,746	187,746
<b>Revenue Bonds and Notes</b> (backed by specific taxes and fees)			
Sales tax revenue	460,000		460,000
Water and sewer revenue		344,000	344,000
Totals	3,317,212	3,958,121	7,275,333

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

New debt resulted mainly from issuing general obligation bonds of \$1,800,000 for street improvements. In addition, capitalized leases and notes payable were incurred to finance acquisition of capital additions.

**Future Outlook**

The City's new half-cent sales tax went into effect in April 2004. It is expected to generate about \$1,000,000 per year and it is dedicated to public safety.

The City expects to issue approximately \$2,500,000 in public improvement bonds financed by sales tax revenue for street renovations, drainage, parks and recreation, and equipment in January 2005.

The City expects its economic base to remain about the same.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Administrator at the City of Leesville, 101 West Lee Street, Leesville, Louisiana or by telephone at 337-239-2444.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS (GWFS)**

**CITY OF LEESVILLE, LOUISIANA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

**EXHIBIT A**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,973,754	\$ 175,143	\$ 3,148,897
Receivables, net	669,148	228,087	897,235
Internal balances	96,287	(96,287)	-
Due from other governments	39,933		39,933
Prepaid expenses	64,711		64,711
Inventories	75,606		75,606
Restricted cash and cash equivalents		360,716	360,716
Deferred bond issuance costs		50,835	50,835
Capital assets			
Land and construction in progress	228,856	501,591	730,447
Other capital assets, net of depreciation	<u>12,183,089</u>	<u>10,639,495</u>	<u>22,822,584</u>
Total Assets	<u>16,331,384</u>	<u>11,859,580</u>	<u>28,190,964</u>
<b>Liabilities</b>			
Bank overdraft	245,023	416,314	661,337
Accounts and contracts payable	102,935	157,476	260,411
Accrued expenses	65,751	44,198	109,949
Deferred revenue	13		13
Long-term liabilities			
Due within one year	461,757	362,000	823,757
Due in more than one year	<u>2,855,455</u>	<u>3,596,121</u>	<u>6,451,576</u>
Total Liabilities	<u>3,730,934</u>	<u>4,576,109</u>	<u>8,307,043</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,473,920	7,806,086	15,280,006
Restricted for			
Capital additions and contingencies		29,958	29,958
Construction	1,776,393	66,888	1,843,281
Debt service	445,715		445,715
Unrestricted	<u>2,904,422</u>	<u>(619,461)</u>	<u>2,284,961</u>
<b>Total Net Assets</b>	<u>\$ 12,600,450</u>	<u>\$ 7,283,471</u>	<u>\$ 19,883,921</u>

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

CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

EXHIBIT B

Function/Program	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Business-type Activities
				Governmental Activities	Totals	
<b>Primary Government</b>						
<b>Governmental Activities</b>						
General government	\$ 739,050	\$ 384,874	\$ 136,182	\$ (354,176)	\$ (354,176)	\$ (354,176)
Public safety	2,233,789	602,940	3,281	(1,491,386)	(1,491,386)	(1,491,386)
Public works	903,416	10,351	106,097	(786,968)	(786,968)	(786,968)
Economic development	557,247	105,092	35,615	(416,540)	(416,540)	(416,540)
Culture and recreation	308,946	62,090		(246,856)	(246,856)	(246,856)
Interest and fiscal charges on long-term debt	90,218			(90,218)	(90,218)	(90,218)
Total Governmental Activities	4,832,666	1,165,347	171,797	(3,386,144)	(3,386,144)	(3,386,144)
<b>Business-type Activities</b>						
Water	862,474	1,041,578	202,682	381,786	381,786	381,786
Sewer	626,460	462,036		(164,424)	(164,424)	(164,424)
Interest and fiscal charges on long-term debt	138,608			(138,608)	(138,608)	(138,608)
Total Business-type Activities	1,627,542	1,503,614	202,682	78,754	78,754	78,754
<b>Total Primary Government</b>	<b>\$ 6,460,208</b>	<b>\$ 2,668,961</b>	<b>\$ 171,797</b>	<b>(3,386,144)</b>	<b>78,754</b>	<b>(3,307,390)</b>
<b>General Revenues</b>						
Sales taxes				2,427,145		2,427,145
Ad valorem taxes				316,906	330,397	647,303
Franchise taxes				418,513		418,513
Entitlements and shared revenues				31,736		31,736
Unrestricted investment earnings				6,607	1,864	8,471
Miscellaneous				35,210		35,210
Transfers				472,452	(472,452)	-
Total General Revenues and Transfers				3,708,569	(140,191)	3,568,378
<b>Change in Net Assets</b>				322,425	(61,437)	260,988
<b>Net Assets, Beginning of Year</b>				12,278,025	7,344,908	19,622,933
<b>Net Assets, End of Year</b>				\$ 12,600,450	\$ 7,283,471	\$ 19,883,921

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



**FUND FINANCIAL STATEMENTS**

**CITY OF LEESVILLE, LOUISIANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

**EXHIBIT C**

	General Fund	Sales Tax Special Revenue Fund	2004 Street Improvement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 66	\$ 226,806	\$ 1,776,393	\$ 970,489	\$ 2,973,754
Receivables, net	92,666	217,366		172,237	482,269
Due from other funds	7,956	95,000			102,956
Due from other governments	39,933				39,933
Inventories	75,606				75,606
<b>Total Assets</b>	<b>\$ 216,227</b>	<b>\$ 539,172</b>	<b>\$ 1,776,393</b>	<b>\$ 1,142,726</b>	<b>\$ 3,674,518</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Bank overdraft	\$ 71,146	\$	\$	\$	\$ 71,146
Accounts and contracts payable	52,464	14,044		36,427	102,935
Accrued expense/other payables	5,296				5,296
Due to other funds		5,977		692	6,669
Deferred revenue				13	13
<b>Total Liabilities</b>	<b>128,906</b>	<b>20,021</b>	<b>-</b>	<b>37,132</b>	<b>186,059</b>
<b>Fund Balances</b>					
<b>Reserved</b>					
Construction			1,776,393		1,776,393
Debt service				445,715	445,715
<b>Unreserved</b>	<b>87,321</b>	<b>519,151</b>			<b>606,472</b>
<b>Unreserved - reported in nonmajor</b>					
Special revenue funds				535,791	535,791
Capital projects funds				124,088	124,088
<b>Total Fund Balances</b>	<b>87,321</b>	<b>519,151</b>	<b>1,776,393</b>	<b>1,105,594</b>	<b>3,488,459</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 216,227</b>	<b>\$ 539,172</b>	<b>\$ 1,776,393</b>	<b>\$ 1,142,726</b>	<b>\$ 3,674,518</b>

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

CITY OF LEESVILLE, LOUISIANA  
 RECONCILIATION OF THE BALANCE SHEET FOR GOVERNMENTAL  
 FUNDS TO GOVERNMENTAL ACTIVITIES REPORTED  
 IN THE STATEMENT OF NET ASSETS  
 JUNE 30, 2004

EXHIBIT D

<b>Fund Balances - Governmental Funds</b>	\$	3,488,459
 <b>Net assets reported for governmental activities in the Statement of Net Assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		12,411,945
Certain expenditures benefiting future periods are reported as deferred charges in the Statement of Net Assets		
Prepaid insurance		64,711
Management uses an internal service fund to charge the costs of certain employee benefits to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets		(14,066)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Bonds, notes, and capitalized leases		(3,161,632)
Compensated absences		(155,580)
Accrued interest payable		(33,387)
		(3,350,599)
<b><u>Net Assets - Governmental Activities</u></b>	<b>\$</b>	<b><u>12,600,450</u></b>

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

**CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

EXHIBIT E

	General Fund	Sales Tax Special Revenue Fund	2004 Street Improvement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 562,341	\$ 2,156,448	\$	\$ 443,775	\$ 3,162,564
Licenses and permits	375,199				375,199
Intergovernmental	181,909	42,300		114,554	338,763
Charges for services	104,019	60,955		392,636	557,610
Fines and fees	153,164				153,164
Investment revenue	10	534	1,099	4,959	6,602
Other	85,512	3,214		6	88,732
Total Revenues	1,462,154	2,263,451	1,099	955,930	4,682,634
<b>Expenditures</b>					
Current					
General government	609,207	40,932			650,139
Public safety	1,244,842	572,049		427,360	2,244,251
Public works	722,655	226		187,577	910,458
Economic development	158,665				158,665
Culture and recreation		235,123			235,123
Debt service					
Principal	56,087			265,000	321,087
Interest and other charges	4,359			72,005	76,364
Capital outlay	143,917	5,540		85,190	234,647
Total Expenditures	2,939,732	853,870	-	1,037,132	4,830,734
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(1,477,578)	1,409,581	1,099	(81,202)	(148,100)
<b>Other Financing Sources (Uses)</b>					
Proceeds of capital debt	130,252		1,800,000		1,930,252
Transfers in	1,516,000			403,511	1,919,511
Transfers (out)	(81,353)	(1,335,000)	(24,706)	(6,000)	(1,447,059)
Total Other Financing Sources (Uses)	1,564,899	(1,335,000)	1,775,294	397,511	2,402,704
<b>Change in Fund Balances</b>	87,321	74,581	1,776,393	316,309	2,254,604
<b>Fund Balances, Beginning of Year</b>	-	444,570	-	789,285	1,233,855
<b>Fund Balances, End of Year</b>	\$ 87,321	\$ 519,151	\$ 1,776,393	\$ 1,105,594	\$ 3,488,459

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

CITY OF LEESVILLE, LOUISIANA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO GOVERNMENTAL ACTIVITIES REPORTED IN THE  
 STATEMENT OF NET ASSETS  
 YEAR ENDED JUNE 30, 2004

EXHIBIT F

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 2,254,604</b>
 <b>The change in net assets for <i>governmental activities</i> in the Statement of Activities are different because:</b>	
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital outlay reported in the funds	234,647
Depreciation reported in the Statement of Activities	(593,779)
 Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	
	(1,930,252)
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	
	321,087
 Internal service funds are used by management to charge the costs of certain activities, such as risk management and employee benefits, to individual funds. The net revenue (expenses) of these internal service funds are included in governmental activities in the Statement of Activities	
	12,178
 Certain timing differences exist between the recognition of revenue and expenditures in the governmental funds and the recognition of revenue and expenses in the Statement of Activities	
Prepaid expenses	37,794
Interest expense	(13,854)
 <b><u>Change in Net Assets - Governmental Activities</u></b>	 <b><u>\$ 322,425</u></b>

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

CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2004

EXHIBIT G

	Enterprise Funds			Internal Service Fund
	Sewer System Fund	Water System Fund	Total Enterprise Funds	
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$	\$ 175,143	\$ 175,143	\$
Receivables - net	89,885	138,202	228,087	186,879
Totals	89,885	313,345	403,230	186,879
Noncurrent Assets				
Restricted cash and cash equivalents	336,098	24,618	360,716	
Capital assets				
Property, plant, and equipment	10,888,540	7,234,934	18,123,474	
Accumulated depreciation	(3,120,517)	(3,861,871)	(6,982,388)	
Deferred bond issuance costs	33,341	17,494	50,835	
Totals	8,137,462	3,415,175	11,552,637	-
<b>Total Assets</b>	8,227,347	3,728,520	11,955,867	186,879
<b>Liabilities</b>				
Current Liabilities				
Bank overdraft	416,314		416,314	173,877
Accounts payable	20,840	136,636	157,476	
Due to other funds	1,069	95,218	96,287	
Accrued expenses/other current liabilities		2,501	2,501	27,068
Interest payable		4,669	4,669	
General obligation bonds and revenue bonds	35,881	92,000	127,881	
Totals	474,104	331,024	805,128	200,945
Liabilities Payable from Restricted Assets				
Customer guaranteed deposits		187,746	187,746	
Interest	35,089	1,939	37,028	
General obligation bonds and revenue bonds	234,119		234,119	
Totals	269,208	189,685	458,893	-
Noncurrent Liabilities				
Compensated absences payable	3,987	15,601	19,588	
General obligation bonds	2,800,000		2,800,000	
General obligation refunding bonds	265,000		265,000	
Revenue bonds		252,000	252,000	
Notes payable		71,787	71,787	
Totals	3,068,987	339,388	3,408,375	-
<b>Total Liabilities</b>	3,812,299	860,097	4,672,396	200,945
<b>Net Assets</b>				
Invested in capital assets, net of related debt	4,433,023	3,373,063	7,806,086	
Restricted for				
Capital additions and contingencies	7,279	22,679	29,958	
Construction	66,888		66,888	
Unrestricted (deficit)	(92,142)	(527,319)	(619,461)	(14,066)
<b>Total Net Assets</b>	\$ 4,415,048	\$ 2,868,423	\$ 7,283,471	\$ (14,066)

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

CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004

EXHIBIT H

	Enterprise Funds			Internal Service Fund
	Sewer System Fund	Water System Fund	Total Enterprise Funds	
<b>Operating Revenues</b>				
Charges for sales and services	\$ 462,036	\$ 1,002,719	\$ 1,464,755	\$ 580,384
Other	-	38,859	38,859	189,232
Totals	462,036	1,041,578	1,503,614	769,616
<b>Operating Expenses</b>				
Salaries	102,407	188,618	291,025	
Employee benefits	20,808	28,971	49,779	
Office expense	1,200	12,550	13,750	
Supplies	48,747	79,119	127,866	
Vehicle expenses	3,226	7,474	10,700	
Utilities/communications	90,901	90,756	181,657	
Insurance	60,062	91,539	151,601	103,424
Claims incurred			-	623,065
Legal and other professional	5,000	5,000	10,000	
Repairs and maintenance	22,032	74,761	96,793	
Depreciation	250,825	273,247	524,072	
Amortization	5,398	9,951	15,349	
Other expenses	15,854	488	16,342	30,954
Totals	626,460	862,474	1,488,934	757,443
<b>Operating Income (Loss)</b>	(164,424)	179,104	14,680	12,173
<b>Nonoperating Revenues (Expenses)</b>				
Investment revenue	1,598	266	1,864	5
Ad valorem taxes	330,397		330,397	
Interest expense and fiscal charges	(106,786)	(31,822)	(138,608)	
Totals	225,209	(31,556)	193,653	5
<b>Income (Loss) Before Contributions and Transfers</b>	60,785	147,548	208,333	12,178
<b>Capital Contributions</b>		202,682	202,682	
<b>Transfers In (Out)</b>				
Transfers (out)	(136,445)	(336,007)	(472,452)	
Totals	(136,445)	(336,007)	(472,452)	-
<b>Change in Net Assets</b>	(75,660)	14,223	(61,437)	12,178
<b>Net Assets, Beginning of Year</b>	4,490,708	2,854,200	7,344,908	(26,244)
<b>Net Assets, End of Year</b>	\$ 4,415,048	\$ 2,868,423	\$ 7,283,471	\$ (14,066)

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

**CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

**EXHIBIT I  
(Continued)**

	Enterprise Funds			Internal Service Fund
	Sewer System Fund	Water System Fund	Total Enterprise Funds	
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 450,355	\$ 1,019,545	\$ 1,469,900	\$ 36,786
Internal activity - receipts from other funds			-	543,598
Other receipts		38,859	38,859	2,353
Payments to employees	(103,668)	(186,109)	(289,777)	
Payments to vendors and others	(222,895)	(204,538)	(427,433)	(761,120)
Internal activity - payments to other funds	(39,422)	(67,526)	(106,948)	
Net Cash Provided (Used) by Operating Activities	84,370	600,231	684,601	(178,383)
<b>Cash Flows from Noncapital Financing Activities</b>				
Bank overdraft	96,807		96,807	173,877
Ad valorem taxes	330,397		330,397	
Operating subsidies and transfers to other funds	(135,376)	(335,789)	(471,165)	
Net Cash Provided (Used) by Noncapital Financing Activities	291,828	(335,789)	(43,961)	173,877
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from capital debt		71,787	71,787	
Capital contributions		202,682	202,682	
Purchase of capital assets		(344,340)	(344,340)	
Principal paid on capital debt	(258,634)	(104,984)	(363,618)	
Interest paid on capital debt	(109,058)	(38,049)	(147,107)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(367,692)	(212,904)	(580,596)	-
<b>Cash Flows from Investing Activities</b>				
Net change in restricted cash	(10,104)	18,399	8,295	
Interest received on operating funds	1,598	266	1,864	5
Net Cash Provided (Used) by Investing Activities	(8,506)	18,665	10,159	5
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	-	70,203	70,203	(4,501)
<b>Cash and Cash Equivalents, Beginning of Year</b>	-	104,940	104,940	4,501
<b><u>Cash and Cash Equivalents, End of Year</u></b>	\$ -	\$ 175,143	\$ 175,143	\$ -

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



**CITY OF LEESVILLE, LOUISIANA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

**EXHIBIT I  
(Concluded)**

	Enterprise Funds			Internal Service Fund
	Sewer System Fund	Water System Fund	Total Enterprise Funds	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating income (loss)	\$ (164,424)	\$ 179,104	\$ 14,680	\$ 12,173
Adjustments to reconcile operating income (loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation/amortization	256,223	283,198	539,421	
Provision for doubtful accounts	5,549	15,697	21,246	
Changes in assets and liabilities				
Receivables	(17,230)	1,129	(16,101)	(186,879)
Accounts payable	5,513	118,986	124,499	(3,677)
Accrued expenses and other current liabilities	(1,261)	1,080	(181)	
Customer guaranteed deposits	-	1,037	1,037	
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>	<b><u>\$ 84,370</u></b>	<b><u>\$ 600,231</u></b>	<b><u>\$ 684,601</u></b>	<b><u>\$ (178,383)</u></b>

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

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

The City of Leesville, Louisiana, (City) was incorporated by proclamation of the governor on February 15, 1900. The City operates under a council-administrator form of government.

The accompanying financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GAAP includes all relevant GASB pronouncements. In the Government-Wide Financial Statements and the Fund Financial Statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The accounting and reporting framework and the more significant of the City's accounting policies are described below.

**A. The Financial Reporting Entity**

As mentioned above, the City of Leesville is a municipal corporation governed by an elected seven member board. The accompanying financial statements present only the data of the primary government.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. These financial statements do not include the data of the component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

**B. Individual Component Units Not Included in this Report**

The City has two component units, which are legally separate from the City. The voters of the City of Leesville elect the City Marshal and the City Judge. This report does not include these component units.

1. The Leesville City Marshal is responsible for enforcing judgments of city court, maintaining order within the city court, and collection of city court fines.
2. The Leesville City Court is responsible for hearing court cases involving violations of city laws and ordinances and for rendering judgments thereon.

Complete financial statements for each of the two component units can be obtained from their respective administrative offices.

Administrative Offices:

Leesville City Marshal  
P.O. Box 1486  
Leesville, Louisiana

Leesville City Court  
P.O. Box 1486  
Leesville, Louisiana

CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004

**NOTES TO THE FINANCIAL STATEMENTS**

**C. Related Organization**

The Leesville Housing Authority: The Authority is accountable to the City since the City Council appoints the Authority's board members. However, since the City does not have the ability to impose its will on the Authority and no financial benefit/burden relationship exists, the City is not considered financially accountable for the Authority. Accordingly, the Authority is not considered part of the City for financial reporting purposes.

**D. Change in Accounting Principle**

The City of Leesville adopted 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*, Statement No. 37, *Basic Financial Statements - And Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Adoption of these statements results in a change in the format and content of the basic financial statements and additional note disclosures.

**E. Basis of Presentation and Accounting**

The accounting system is organized and operated on the basis of funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into two broad fund categories and six generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue, debt service and capital projects. Proprietary funds include enterprise funds and internal service funds.

**Government-Wide Financial Statements (GWFS)**

The Government-Wide Financial Statements, "*Statement of Net Assets*" and "*Statement of Activities*", report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The Government-Wide Financial Statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the Government-Wide Financial Statements and the statements for government funds. The primary effect of internal activity has been eliminated from the Government-Wide Financial Statements.

The Statement of Activities presents a comparison between expenses (both direct and indirect) and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses are not allocated to governmental activities functions in the Statement of Activities. Program revenues include (a)

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

fees, fines, and charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenue are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets are reported as restricted when constraints placed on net assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds, debt service funds, and capital project funds with their respective net asset use.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting by fund type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

**GOVERNMENTAL FUNDS**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The major governmental funds are:

- General Fund – This is the City's primary operating fund. This fund accounts for all financial resources except those required to be accounted for in another fund.
- Sales Tax Special Revenue Fund – This fund accounts for the proceeds of a one-percent (1%) City sales and use tax.
- 2004 Street Improvements Capital Projects Fund – This fund accounts for the receipt of the proceeds of the Sales Tax Bonds, Series 2004 and subsequent expenditure of the funds.

**Revenue Recognition**

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are recognized when deemed both measurable (the amount of the transaction can be determined) and available (collectible within the current period or within 60 days after year end and available to pay obligations of the current period). This includes property taxes, franchise taxes, sales taxes, grants, interest revenue, and charges for services. Fines, permits, and license revenues are not susceptible to accrual because generally they are not measurable until received in cash. Reimbursements due for federally and state funded projects are accrued as revenue at the time the expenditures are made, or, when received in advance, deferred until expenditures are made.

**CITY OF LEESVILLE, LOUISIANA**  
**JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**Expenditure Recognition**

The measurement focus on governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**PROPRIETARY FUNDS**

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled service receivables are recorded at each year-end.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. The principal operating revenues of the City's enterprise funds and internal service fund include charges to customers for sales and services, and employer and employee insurance premiums. Operating expenses for enterprise funds and the internal service fund include the costs of sales and services, administrative expenses, benefits paid and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The major proprietary funds of the City are the Sewer System Fund and the Water System Fund which account for sewer and water services provided to residents of the City and general surrounding areas.

The City maintains one internal service fund, the Employee Benefits Insurance Fund, which is used to account for the provision of hospitalization/health insurance to employees of the City. A defined amount is self insured and provision is made for excess coverage through premiums paid to a third party.

**E. Budgets and Budgetary Accounting**

Annual appropriated operating budgets of proposed expenditures and the means of financing them are adopted for the general, special revenue, and debt service funds. Budgeted amounts are as originally adopted, or as amended from time to time by the Council. Budgets are adopted consistent with accounting principles generally accepted in the United States of America.

**F. Cash and Cash Equivalents**

Cash includes amounts on hand and in demand deposits. For the purpose of the statement of cash flows, management considers all highly liquid investments, if any, with a maturity of three months or less when purchased to be cash equivalents.

**CITY OF LEESVILLE, LOUISIANA**  
**JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**G. Internal Balances (Due from/to Other Funds)**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as internal balances on the statement of net assets and as due from/to other funds in the fund financial statements.

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**H. Inventories**

*Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. All inventories are accounted for in the General Fund as assets when purchased and recorded as expenditures or expenses when consumed. Inventory items consumed by other funds are recorded through the interfund receivable/payable accounts.*

**I. Restricted Assets**

Certain proprietary fund assets are classified as restricted assets because their use is limited by applicable bond covenants or by Council action. Various "debt service accounts" segregate resources accumulated for debt service payments of bonds and certificates of indebtedness. "Capital additions and contingencies accounts" are used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacement for the water system. These resources may also be used for debt service if funds are not otherwise available. "Construction accounts" are used to report funds received from loan proceeds that are to be used for construction.

**J. Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. *When purchased, such assets are recorded as expenditures in the governmental funds.*

In the Government-Wide Financial Statements, capital assets, including general capital assets, are capitalized and depreciated on a straight-line basis over their estimated useful lives. Public domain capital assets (infrastructure), which consist of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are capitalized. The valuation basis for capital assets is historical cost, or when historical cost is not available, estimated historical cost. Donated capital assets are valued at estimated fair value on the date of donation. The minimum capitalization threshold is any individual item with a total cost greater than \$1,000 or infrastructure capital assets with a total cost greater than \$250,000.

Capital assets in the proprietary funds are capitalized in the fund which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for general capital assets. Donated assets are capitalized at estimated fair market value on the date donated.

**CITY OF LEESVILLE, LOUISIANA**  
**JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the current period.

**K. Bond Issuance Costs**

In governmental funds, bond issuance costs are recognized in the current period. Bond issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond issuance costs for proprietary fund types are recorded as deferred charges.

**L. Compensated Absences**

Vested or accumulated leave is accrued in the period the liability is incurred. Compensated absences expected to be financed from governmental funds are not reported in the balance sheet of the Fund Financial Statements; however, compensated absences are reported in the Statement of Net Assets in the Government-Wide Financial Statements. Vested or accumulated leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee.

**M. Long-term Liabilities**

Long-term liabilities expected to be financed from governmental funds are not reported in the Balance Sheet for the Fund Financial Statements; however, such long-term obligations are reported in the Statement of Net Assets in the Government-Wide Financial Statements. Interest expense on long-term debt is recognized in the Government-Wide Financial Statements as the interest accrues, regardless of when it is due. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**N. Supplemental Wages**

Certain employees of the police and fire departments receive supplemental wages from the State of Louisiana. These supplemental wages are recognized as intergovernmental revenue and public safety expenditures in the General and Sales Tax Special Revenue Funds.

**O. Interfund Transactions**

Quasi-external transactions, if any, are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures, initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**P. Estimates**

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



**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**2. CASH AND CASH EQUIVALENTS**

At year-end, the City's cash and cash equivalents consisted of demand deposits or interest-bearing checking accounts as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Cash and cash equivalents	\$ 2,973,754	\$ 175,143	\$ 3,148,897
Restricted cash and investments	-	360,716	360,716
Bank overdrafts	<u>(245,023)</u>	<u>(416,314)</u>	<u>(661,337)</u>
	\$ 2,728,731	\$ 119,545	\$ 2,848,276

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows state law requirements for its custodial credit risk policy. At year-end, the City's custodial credit risk was as follows:

Insured	\$ 500,000
Collateral held by the pledging banks' agents in the City's name	<u>2,348,276</u>
	\$ 2,848,276

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the 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 agent bank.

**3. RECEIVABLES**

Receivables as shown in the Statement of Net Assets, at June 30, 2004, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Accounts			
Uncollected cycle billings	\$ -	\$ 164,703	\$ 164,703
Estimated billings between cycles	-	89,990	89,990
Other	273,154	-	273,154
Sales taxes	326,049	-	326,049
Franchise taxes	<u>69,945</u>	<u>-</u>	<u>69,945</u>
Gross receivables	669,148	254,693	923,841
Allowance for doubtful accounts	<u>-</u>	<u>(26,606)</u>	<u>(26,606)</u>
Net Receivables	\$ 669,148	\$ 228,087	\$ 897,235

Receivables arising from utility services provided to customers consist of uncollected billings rendered customers on monthly cycle billings and estimated services provided customers between billing cycles. The allowance for doubtful accounts represents the estimated uncollectible amounts at June 30, 2004.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**4. DUE FROM OTHER GOVERNMENTS**

At year-end, due from other governments consisted of the following:

Governmental Activities		
State	\$	14,312
Local		<u>25,621</u>
Total	\$	\$ 39,933

**5. DUE FROM/TO OTHER FUNDS AND TRANSFERS**

Amounts due from and to other funds as reported in the Fund Financial Statements, at June 30, 2004, consist of the following:

Due To	Due From				Totals
	Sales Tax Special Revenue Fund	Nonmajor Governmental Funds	Water System Fund	Sewer System Fund	
General Fund	\$ 5,977	\$ 692	\$ 218	\$ 1,069	\$ 7,956
Sales Tax Special Revenue Fund	-	-	<u>95,000</u>	-	<u>95,000</u>
	<u>\$ 5,977</u>	<u>\$ 692</u>	<u>\$ 95,218</u>	<u>\$ 1,069</u>	<u>\$ 102,956</u>

These balances represent charges for goods and services between funds. The balances are settled periodically. The amounts here represent activity since the last settlement.

Transfers, for the year ending June 30, 2004, shown in the Fund Financial Statements were as follows:

Transfer To	Transfer From						Totals
	General Fund	Sales Tax Special Revenue Fund	2004 Street Improvement Capital Project Fund	Nonmajor Governmental Funds	Water System Fund	Sewer System Fund	
General Fund	\$ -	\$1,100,000	\$ -	\$ 6,000	\$ 275,000	\$ 135,000	\$1,516,000
Nonmajor Governmental Funds	<u>81,353</u>	<u>235,000</u>	<u>24,706</u>	<u>-</u>	<u>61,007</u>	<u>1,445</u>	<u>403,511</u>
	<u>\$ 81,353</u>	<u>\$1,335,000</u>	<u>\$ 24,706</u>	<u>\$ 6,000</u>	<u>\$ 336,007</u>	<u>\$ 136,445</u>	<u>\$1,919,511</u>

The transfers are movements of money from one fund to another. These can be required by law or merely serve as a means to finance activities in the receiving fund. The transfers are not loans, i.e., the receiving fund does not pay it back.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**6. RESTRICTED ASSETS**

At June 30, 2004, restricted assets of the Water and Sewer System Enterprise Funds consisted of cash and cash equivalents as follows:

	Sewer System	Water System	Total
Construction	\$ 59,610	\$ -	\$ 59,610
Ad valorem bonds debt service	236,513	-	236,513
General obligation bonds debt service	32,696	-	32,696
Revenue bonds debt service	-	1,939	1,939
Capital additions and contingencies	<u>7,279</u>	<u>22,679</u>	<u>29,958</u>
	\$ 336,098	\$ 24,618	\$ 360,716

**7. CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities				
<i>Assets not being depreciated</i>				
Land and land improvements	\$ 228,856	\$ -	\$ -	\$ 228,856
Total Assets not Being Depreciated	228,856	-	-	228,856
Other capital assets				
Buildings and improvements	10,041,621	5,540	-	10,047,161
Equipment and vehicles	3,109,873	174,538	-	3,284,411
Infrastructure	<u>16,528,928</u>	<u>54,569</u>	-	<u>16,583,497</u>
Total Other Capital Assets	29,680,422	234,647	-	29,915,069
Accumulated depreciation				
Buildings and improvements	(1,973,586)	(239,474)	-	(2,213,060)
Equipment and vehicles	(2,596,759)	(120,434)	-	(2,717,193)
Infrastructure	<u>(12,567,856)</u>	<u>(233,871)</u>	-	<u>(12,801,727)</u>
Total Accumulated Depreciation	<u>(17,138,201)</u>	<u>(593,779)</u>	-	<u>(17,731,980)</u>
Other Capital Assets, Net	<u>12,542,221</u>	<u>(359,132)</u>	-	<u>12,183,089</u>
Net Capital Assets	\$ 12,771,077	\$ (359,132)	\$ -	\$ 12,411,945

Depreciation was charged to functions as follows:

Governmental Activities	
General government	\$ 19,551
Public safety	59,717
Public works	44,529
Culture and recreation	65,742
Economic development	<u>404,240</u>
Total Depreciation Expense for Governmental Activities	\$ 593,779

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Equipment and vehicles	5 - 15 years
Infrastructure	20 - 40 years

	<u>Balance</u> <u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2004</u>
<b>Business-type Activities</b>				
Assets not being depreciated				
Land	\$ 157,251	\$ -	\$ -	\$ 157,251
Construction in progress	<u>-</u>	<u>344,340</u>	<u>-</u>	<u>344,340</u>
Total Assets not Being Depreciated	157,251	344,340	-	501,591
Other capital assets				
Plant and system	16,982,160	-	-	16,982,160
Equipment and vehicles	<u>639,724</u>	<u>-</u>	<u>-</u>	<u>639,724</u>
Total Other Capital Assets	17,621,884	-	-	17,621,884
Accumulated depreciation				
Plant and system	(5,912,736)	(486,387)	-	(6,399,123)
Equipment and vehicles	<u>(545,581)</u>	<u>(37,685)</u>	<u>-</u>	<u>(583,266)</u>
Total Accumulated Depreciation	<u>(6,458,317)</u>	<u>(524,072)</u>	<u>-</u>	<u>(6,982,389)</u>
Other Capital Assets, Net	<u>11,163,567</u>	<u>(524,072)</u>	<u>-</u>	<u>10,639,495</u>
 Net Capital Assets	 \$ 11,320,818	 \$ (179,732)	 \$ -	 \$ 11,141,086

Depreciation was charged to functions as follows:

<b>Business-type Activities</b>	
Sewer	\$ 250,825
Water	<u>273,247</u>
Total Depreciation Expense for Business-type Activities	\$ 524,072

Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

Production and distribution systems	25 - 50 years
Buildings and improvements	10 - 25 years
Equipment and vehicles	3 - 8 years

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**8. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance as set forth in the following table. Settled claims did not exceed this commercial coverage for the fiscal year ended June 30, 2004.

	<u>Limits of Coverage</u>
Workmen's compensation	Statutory
Auto liability	\$ 500,000
Commercial general liability	500,000
Public officials' errors and omissions liability (deductible \$5,000)	500,000
Law enforcement officers' liability (deductible \$5,000)	500,000
Airport liability	
Sale of aircraft fuel and oil products	33,000
Premises medical – per person	1,000
Fire damage per occurrence	50,000
Hanger keepers per aircraft (deductible \$2,500)	200,000
Hanger keepers per occurrence (deductible \$2,500)	500,000
City-owned buildings and equipment - fire, lightning, and extended coverage (deductible \$1,000)	6,448,061
City owned computers and scheduled equipment (deductible \$500)	299,611
Wastewater treatment plant – fire, lightning, and extended coverage	1,636,000
Mobile home and adjacent structures – comprehensive (deductible \$250)	9,500

The City covers all other losses, claim settlements, and judgments from General Fund resources. The City currently reports all of its risk management activities in its General Fund. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The City is party to legal proceedings involving suits filed against the City for various reasons. Some of these suits claim damages that are material in amount. The amount of losses, if any, that may arise from these suits cannot be reasonably estimated. Management does not believe that the City is exposed to any material losses not covered by insurance. No provision for losses is included in the financial statements.

**9. EMPLOYEE BENEFITS INSURANCE**

The City maintains an internal service fund to finance employee hospitalization/health insurance. Resources accumulated for health coverage in the trust are accounted for in the Employee Benefits Insurance Fund (an internal service fund). Under this program, the Employee Benefits Internal Service Fund normally provides coverage for a maximum of \$15,000 for each covered employee's (and dependent's, if applicable) qualifying health claims. The Fund maintains an aggregate retained loss per plan month. The Fund purchases commercial insurance for health claims in excess of coverage provided. Under the terms of the agreement, the net assets of the Fund may only be used to provide employee benefits.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

All funds of the City and covered employees participate in the program and make payments to the Employee Benefits Insurance Fund. The claims liability of \$27,068 reported in the Fund at June 30, 2004, is based upon GAAP, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount in the fiscal year ending June 30, 2004, were as follows:

Balance, beginning of year	\$ 30,745
Current year claims	619,387
Claim payments	<u>(623,064)</u>
Balance, end of year	\$ 27,068

**11. ACCRUED EXPENSES**

At year-end, accrued expenses reported in the Statement of Net Assets consisted of:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Interest payable	\$ 33,387	\$ 41,697	\$ 75,084
Claims payable	27,068	-	27,068
Other	<u>5,296</u>	<u>2,501</u>	<u>7,797</u>
	\$ 65,751	\$ 44,198	\$ 109,949

**12. LONG-TERM LIABILITIES**

Governmental activities long-term liabilities are direct obligations and pledge the full faith and credit of the City. The City has incurred these liabilities to provide funds for the acquisition and construction of major capital additions, or to refund general obligation liabilities previously issued for these purposes. In addition, the City's obligation relative to the governmental funds' liability for compensated absences is reported as a governmental activities long-term liability.

The City has issued two types of revenue bonds. The first type is utility revenue bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service. This long-term debt is reported in the business-type activities. The second type is sales tax revenue bonds whereby the City has pledged revenue from specifically dedicated sales tax collections to pay debt service and is reported as governmental activities long-term liabilities.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

A summary of long-term debt, as of June 30, 2004, follows:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Business-type Activities</u>	<u>Governmental Activities</u>
<b>Governmental activities</b>				
General obligation				
Sales tax revenue bonds				
Refunding Bonds, Series ST-2002	08/01/2005	0.10-4.50%		460,000
General obligation bonds				
Refunding Bonds, Series 2002A	08/01/2012	4.95%		235,000
Refunding Bonds, Series 2002B	08/01/2012	0.10-6.50%		345,000
General Obligation, Series 2004	03/01/2019	4.40-3.63%		1,800,000
Compensated absences				155,580
Capitalized leases				
Police Equipment (2004)	07/18/2006	4.00%		130,252
Public Works Department Equipment (2003)	11/10/2009	4.25%		158,506
Notes payable				
Economic Development (2002)	06/30/2006	None		32,874
<b>Business-type activities</b>				
Enterprise Funds				
Utilities System Revenue Bonds				
1998 refunding	04/01/2008	7.25-7.75%	344,000	
Notes payable				
Utility Relocation	Open Ended	None	71,787	
General obligation bonds				
Sewer System Improvements	03/15/2015	2.95%	3,040,000	
Refunding Bonds, Series 2002C	08/01/2012	0.10-5.50%	295,000	
Customer guaranteed deposits			187,746	
Compensated absences			19,588	-
Totals			<u>3,958,121</u>	<u>3,317,212</u>
Current portion			<u>(362,000)</u>	<u>(461,757)</u>
Totals			<u>\$ 3,596,121</u>	<u>\$ 2,855,455</u>

During the year ended June 30, 2004, the following changes occurred in governmental activities long-term liabilities:

	<u>Balance 07/01/03</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance 06/30/04</u>
<b>Governmental Activities Long-Term Debt</b>				
Sales tax revenue bonds	\$ 675,000	-	\$ (215,000)	\$ 460,000
General obligations	630,000	1,800,000	(50,000)	2,380,000
Compensated absences - net	157,063	-	(1,483)	155,580
Capitalized leases	196,664	130,252	(38,158)	288,758
Notes payable	49,320	-	(16,446)	32,874
Totals	<u>\$ 1,708,047</u>	<u>\$ 1,930,252</u>	<u>\$ (321,087)</u>	<u>\$ 3,317,212</u>

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Balance 06/30/04</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
<b>Governmental Activities Long-Term Debt</b>			
Sales tax revenue bonds	\$ 460,000	\$ 220,000	\$ 240,000
General obligations	2,380,000	135,000	2,245,000
Compensated absences - net	155,580	-	155,580
Capitalized leases	288,759	90,310	198,449
Notes payable	32,873	16,447	16,426
Totals	<u>\$ 3,317,212</u>	<u>\$ 461,757</u>	<u>\$ 2,855,455</u>

The annual requirements to amortize outstanding governmental activities long-term debt excluding compensated absences are as follows:

<u>Year ended June 30,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2005	\$ 461,757	\$ 117,588	\$ 579,345
2006	490,708	106,078	596,786
2007	178,948	91,749	270,697
2008	185,203	83,372	268,575
2009	196,512	74,208	270,720
2010-2019	<u>\$ 1,648,504</u>	<u>\$ 320,595</u>	<u>\$ 1,969,099</u>
	3,161,632	793,590	3,955,222

During the year ended June 30, 2004, the following changes occurred in business-type activities long-term liabilities:

	<u>Balance 07/01/03</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance 06/30/04</u>
<b>Business-type Activities Long-Term Debt</b>				
Revenue bonds	\$ 430,000	\$ -	\$ (86,000)	\$ 344,000
Notes payable	-	71,787	-	71,787
Capitalized lease obligations	27,287	-	(27,287)	-
General obligations	3,590,000	-	(255,000)	3,335,000
Compensated absences - net	18,338	1,250	-	19,588
Customer guaranteed deposits - net	186,709	1,037	-	187,746
Totals	<u>\$ 4,252,334</u>	<u>\$ 74,074</u>	<u>\$ (368,287)</u>	<u>\$ 3,958,121</u>

	<u>Balance 06/30/04</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
<b>Business-type Activities Long-Term Debt</b>	<u>\$ 3,958,121</u>	<u>\$ 362,000</u>	<u>\$ 3,596,121</u>



**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

The annual requirements to amortize outstanding business-type activities long-term debt excluding customer guaranteed deposits, notes payables, and compensated absences are as follows:

<u>Year ended June 30,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2005	\$ 362,000	\$ 128,565	\$ 490,565
2006	368,000	114,098	482,098
2007	385,000	98,440	483,440
2008	339,000	81,817	420,817
2009	305,000	68,962	373,962
2010-2015	<u>1,920,000</u>	<u>204,435</u>	<u>2,124,435</u>
	\$ 3,679,000	\$ 696,317	\$ 4,375,317

Business-type Activities Note Payable: On July 23, 2003, the City entered into an agreement with the Louisiana Department of Transportation and Development for utility relocation assistance funding. Issuance of future permits to the City by the Louisiana Department of Transportation and Development for location of additional longitudinal facilities within any state owned right of way is contingent upon repayment of this funding. The City must show a good faith effort to repay the debt by making annual payments to the Department of Transportation and Development of 5% of its gross income or 10% of its outstanding utility relocation assistance funding debt. The first payment must be made within one year of the date of invoicing of the City by the Department of Transportation and Development, and issuance of permits will remain suspended until the first payment is made. The City's payments are due by January 15 of each year. As of June 30, 2004, the City incurred \$71,787 in funding from this agreement. The relocation project was not finalized and invoicing to the City by the Department of Transportation had not occurred as of June 30, 2004.

General Obligation Bonds, Series 1995 of the City of Leesville and General Obligation Bonds, Series 1995, of Sewer District No. 3 of the City of Leesville: The material provisions of these bond covenants are as follows:

1. In compliance with the special election held on November 8, 1994, the City shall levy and collect annually ad valorem taxes in an amount sufficient to pay, when due, principal and interest on the bonds. The tax shall be expended only for the purpose of paying promptly when due the principal and interest on the bonds.
2. The City will, in accordance with prudent wastewater utility treatment practice, (i) at all time operate the properties of its System in an efficient manner, (ii) maintain the System in good repair working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments, and improvements with respect to its System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.
3. The City will keep accurate records and accounts for the System separate and distinct from its other records and accounts in accordance with generally accepted government accounting standards.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

4. The City will establish a user charge system to assure that each recipient of wastewater treatment services will pay a proportionate share of the costs of operation and maintenance, including any necessary replacement of portions of the System.
5. There shall be established a separately identifiable fund or account to be designated the General Obligation Bond Sinking Fund. All monies from the collection of the ad valorem taxes shall be used solely to pay principal of and interest on the bonds.
6. There shall be established a separately identifiable fund or account to be designated the Sewer System Renewal and Replacement Fund. There shall be transferred to this fund, on or before the twentieth (20th) day of each month of each year, beginning no later than the first full month after the loan closing, an amount equal to five percent (5%) of net revenues collected in the prior calendar month until the balance in the renewal and replacement fund equals to \$75,000. All monies in the renewal and replacement fund may be drawn on and used by the System for the purpose of paying the costs of any unusual and extraordinary maintenance and any improvements to the System, which will either enhance its revenue producing capacity or provide a higher degree of service.

Violation of General Obligation Bonds, Series 1995 of the City of Leesville and General Obligation Bonds, Series 1995, of Sewer District No. 3 of the City of Leesville Covenants:

1. Funds were not transferred to the Sewer System Renewal and Replacement Fund in accordance with the agreement. At year-end, cumulative additions to the reserve were approximately \$48,859 less than the amount required by the bond indentures.

Water System Refunding Series 1998 Bonds: The material provisions of water system refunding bond covenants are as follows:

1. The City will establish a rate structure sufficient to pay the necessary operating expenses, principal, and interest on the bonds. Revenues after paying operating expenses must be at least 120% of the largest amount of principal and interest maturing in any future fiscal year.
2. The City will transfer monthly to a debt service sinking fund one - sixth (1/6) of the next interest payment due and one - twelfth (1/12) of the next principal payment due.
3. The City will transfer monthly to the contingency fund an amount equal to five percent of the amount transferred to the sinking fund. Monies in this fund may be used for extensions, additions, improvements and replacements, and to pay principal and interest if funds are not otherwise available.
4. After funding necessary operations, sinking fund requirements, and contingency fund requirements, any remaining funds may be used for any lawful purpose of the City.

Violations of the Water System Refunding Bonds, Series 1998 Covenants:

1. *Monthly sinking fund transfers were not made as required by the agreement. One lump sum transfer was made to the sinking fund. At June 30, 2004, a deficit of \$27,669 existed in the sinking fund.*

**CITY OF LEESVILLE, LOUISIANA**  
**JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

2. Monthly transfers were not made to the contingency fund as required by the agreement. Periodic lump sum transfers were made to the contingency fund and, at June 30, 2004, a deficit of \$23,070 existed in the contingency fund.
3. Operating transfers were made to the General Fund prior to funding the above sinking and contingency funds.

Sales Tax Revenue Bonds: The material provisions of sales tax revenue bond covenants are as follows:

1. The bonds and interest thereon are payable from the pledge and dedication of the City's one-percent (1%) sales tax.
2. The City will transfer monthly to a debt service sinking fund one - sixth (1/6) of the next interest payment due and one - twelfth (1/12) of the next principal payment due.
3. Parity bonds may be issued if certain conditions are met.

Violations of Sales Tax Revenue Bond Covenants:

1. Monthly transfers to the sinking fund as required by the covenants were not made. Periodic lump sum transfers were made to the sinking fund. At June 30, 2004, the sinking fund was in excess of the required balance.

**13. SUPPLEMENTAL PAY**

Certain employees meeting statutory qualifications in the fire and police departments receive supplemental pay directly from the State of Louisiana. This supplemental pay in the amount of \$123,145 is recognized as intergovernmental revenue and expenditures in the following public safety departments:

Police	\$ 81,070
Fire	<u>42,075</u>
	\$ 123,145

**15. DEDICATION OF PROCEEDS - FLOW OF FUNDS - CITY SALES AND USE TAX**

Beginning April 1, 2004, the City was authorized to levy and collect a one-half of one percent (1/2 %) sales and use tax for a period of twelve years. Proceeds of the 2004 one-half of one percent (1/2%) City's sales and use tax are dedicated and used solely for the purpose of improving, operating, and maintaining the public safety services within the City of Leesville, specifically:

- a. To provide funds to acquire necessary police and fire protection equipment and other facilities so as to increase the level of services and protection in the City.
- b. To provide funds for salary increases for police and fire departments personnel, including benefits, so as to maintain a consistent level of experience and training within said departments.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**16. PUBLIC EMPLOYEES' RETIREMENT SYSTEMS**

The City contributes to two statewide cost-sharing, multiple-employer, defined benefit public employee retirement systems. These consist of the Municipal Police Employees' Retirement System of Louisiana (MPERS) and the Firefighters' Retirement System (FRS).

MPERS Membership is mandatory for all full-time police officers employed by the City, provided they meet statutory criteria. Any member is eligible for normal retirement benefits after he has been a member of the System for one (1) year, if he has twenty-five (25) years of creditable service at any age, or if he has twenty (20) years of creditable service and is age fifty (50), or has twelve (12) years of creditable service and is age fifty-five (55). Benefit rates are three and one-third percent (3 1/3%) of final compensation per number of years of creditable service not to exceed one hundred percent (100%). State law establishes benefit and contribution requirements. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Police Employees' Retirement System, P. O. Box 94095, Baton Rouge, LA 70804-9095.

Members are currently required to contribute seven and one-half percent (7 1/2%) of their annual salary to the system, including supplemental pay. The City contributes an actuarially determined rate, presently set at fifteen and one fourth percent (15 1/4%) of the member's salary, including supplemental pay.

FRS This Plan is a defined benefit pension plan covering firemen employed by a municipality, parish, or fire protection district of the State hired after December 31, 1979. Employees with twenty (20) or more years of service who have attained age fifty (50), employees who have twelve (12) years of service who have attained age fifty-five (55), or employees who have twenty-five (25) years of service at any age are entitled to annual pension benefits equal to three and one-third percent (3 1/3%) of their average final compensation based on the thirty-six (36) consecutive months of highest pay multiplied by their total years of service, not to exceed one hundred percent (100%). Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering twelve (12) years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to their employer's contributions. Benefits are payable over the employees' lives in the form of a monthly annuity. State law establishes benefit and contribution requirements. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Firefighters' Retirement System, 3100 Brentwood Drive, Baton Rouge, LA 70809.

Members are currently required to contribute eight percent (8%) of their annual salary, including supplemental pay to the Plan. The City contributes an actuarially determined rate, presently at nine percent (9%) of the member's salary, including supplemental pay.

Required contributions: The City made the following required contributions to the various pension plans:

<u>Year Ending</u>	<u>MPERS</u>	<u>FRS</u>	<u>Totals</u>
06/30/04	\$ 49,810	\$ 23,366	\$ 73,176
06/30/03	29,748	27,335	57,083
06/30/02	35,640	21,737	57,377
06/30/01	32,384	21,704	54,088

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**17. DEFINED CONTRIBUTION PLAN**

The City sponsors a defined contribution pension plan (the Plan) to provide benefits at retirement to all full-time employees who elect to participate. Public Employees Benefit Services Corporation administers the Plan. At June 30, 2004, there were 20 participants in the Plan. Plan members are required to contribute 5% of their covered salary. The City is required to contribute 9% of the participant's covered salary. Plan provisions and contribution requirements are established by and may be amended by the City Council. Participant contributions were \$29,048 for the year ending June 30, 2004. Employer contributions were \$40,983. Participant and employer contributions are recognized in the period that the contributions are due.

**18. COMPENSATION PAID TO MAYOR AND CITY COUNCIL**

In accordance with the requirements of the Office of the Legislative Auditor, State of Louisiana, the following report reflects compensation paid to members of the City Council, City of Leesville, for the fiscal year ended June 30, 2004.

Mayor James S. Shapkoff, Jr.	\$ 12,000
Council Members	
Steve Kennedy	7,540
Milton D. Dowd	7,540
William M. Elliott	7,540
Patricia Martinez	6,670
Joseph P. McKee	7,540
Alice F. Guess	7,540

**19. CONTINGENCIES**

For many years, the City had a verbal understanding with its engineering firm that the firm would accept as payment for services received only those engineering fees approved for payment by the grantor agencies on certain projects. During the year ended June 30, 2001, the engineering firm requested payment of fees totaling approximately \$190,000 in excess of those approved by the grantor agencies on these projects, which were completed from 1997 through 1999. City administration is currently negotiating settlement of these fees with the engineering firm. The ultimate amount, if any, to be paid to the engineering firm cannot be determined at this time.

**20. CONCENTRATION OF RISK**

The City received 35.86% of its sales tax revenue from one merchant.

**21. ACCUMULATED DEFICIT - EMPLOYEE BENEFIT INSURANCE FUND**

The City funded the accumulated deficit in the Employee Benefits Insurance Internal Service Fund subsequent to June 30, 2004 with additional employer contributions from the various City participating in the internal service fund.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

**22. AD VALOREM TAXES**

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the City normally on November 15 and are due on December 1. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed. The City bills and collects its own property taxes using the assessed values determined by the tax assessor of Vernon Parish.

For the year ended June 30, 2004, taxes of 23.69 mills were levied on property with assessed values totaling \$27,290,970 and were dedicated as follows:

General maintenance purposes	5.16 mills
Debt Service	18.53 mills

Total taxes levied were \$646,523. Substantially all ad valorem taxes were collected prior to the end of the current fiscal year, except for adjudications, which are considered not collectable, and, therefore, are not recorded as a receivable at year-end.

**23. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following individual governmental funds had expenditures, including transfers out, exceeding appropriations as approved in the budget:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Public Safety Fund	\$ 30,503	\$ -	\$ 30,503

**24. LEGAL COMPLIANCE**

The following possible violations of state and federal statutes occurred during the fiscal year:

- The City did not retain records necessary to document that the purchase of six police cars complied with bid law requirements.
- The City did not obtain the required bond commission approval for the loan to purchase the above police cars.
- Certain expense allowances were inadvertently omitted from some employees' Forms W-2.

**25. SUBSEQUENT EVENTS**

Subsequent to June 30, 2004, the City issued \$2,500,000 in Public Improvement Sales Tax Bonds, Series 2005, for the purpose of improving public streets, drainage, sewerage, and recreation facilities, and for the acquisition of certain equipment to maintain and improve these projects. The bonds are payable from and secured by an irrevocable pledge and dedication of the proceeds of the City's one-percent (1%) sales tax. These bonds were issued on a complete parity with the City's outstanding Public Improvement Sales Tax Refunding Bonds, Series 2002.

**CITY OF LEESVILLE, LOUISIANA  
JUNE 30, 2004**

**NOTES TO THE FINANCIAL STATEMENTS**

Subsequent to June 30, 2004, the Louisiana Supreme Court rendered a judgment in favor of the statewide Firefighters Retirement System requiring municipalities to make additional requirement contributions. Management estimates that the City will incur approximately an additional \$31,000 in required retirement contributions to the Firefighters Retirement System.

**REQUIRED SUPPLEMENTAL INFORMATION-PART II**



**CITY OF LEESVILLE, LOUISIANA  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2004**

**SCHEDULE 1**

Variance with  
Final Budget  
Positive  
(Negative)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 546,500	\$ 566,000	\$ 562,341	\$ (3,659)
Licenses and permits	301,100	377,455	375,199	(2,256)
Intergovernmental	169,550	162,985	181,909	18,924
Charges for services	85,500	104,060	104,019	(41)
Fines and fees	140,000	150,000	153,164	3,164
Investment revenue		10	10	-
Other	72,600	83,500	85,512	2,012
Total Revenues	1,315,250	1,444,010	1,462,154	18,144
<b>Expenditures</b>				
Current				
General government	518,000	653,337	609,207	44,130
Public safety	1,099,630	1,262,181	1,244,842	17,339
Public works	597,265	704,580	722,655	(18,075)
Economic development	119,585	160,076	158,665	1,411
Debt service				
Principal			56,087	(56,087)
Interest and other charges			4,359	(4,359)
Capital outlay	71,255	71,940	143,917	(71,977)
Total Expenditures	2,405,735	2,852,114	2,939,732	(87,618)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(1,090,485)	(1,408,104)	(1,477,578)	(69,474)
<b>Other Financing Sources (Uses)</b>				
Proceeds of capital debt			130,252	130,252
Transfers in	1,131,000	1,516,000	1,516,000	-
Transfers (out)	(40,000)	(81,000)	(81,353)	(353)
Total Other Financing Sources (Uses)	1,091,000	1,435,000	1,564,899	129,899
<b>Change in Fund Balances</b>	515	26,896	87,321	60,425
<b>Fund Balances, Beginning of Year</b>	-	-	-	-
<b>Fund Balances, End of Year</b>	\$ 515	\$ 26,896	\$ 87,321	\$ 60,425

See independent auditor's report.

**CITY OF LEESVILLE, LOUISIANA  
SALES TAX SPECIAL REVENUE FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2004**

**SCHEDULE 2**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 1,875,000	\$ 2,160,000	\$ 2,156,448	\$ (3,552)
Intergovernmental	43,200	42,300	42,300	-
Charges for services	55,900	60,500	60,955	455
Investment revenue	200	450	534	84
Other	1,625	5,251	3,214	(2,037)
<b>Total Revenues</b>	1,975,925	2,268,501	2,263,451	(5,050)
<b>Expenditures</b>				
Current				
General government	39,720	40,717	40,932	(215)
Public safety	570,570	588,336	572,049	16,287
Public works			226	(226)
Culture and recreation	233,025	231,672	232,821	(1,149)
Capital outlay		2,725	7,842	(5,117)
<b>Total Expenditures</b>	843,315	863,450	853,870	9,580
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	1,132,610	1,405,051	1,409,581	4,530
<b>Other Financing Sources (Uses)</b>				
Transfers (out)	(1,085,000)	(1,335,000)	(1,335,000)	-
<b>Total Other Financing Sources (Uses)</b>	(1,085,000)	(1,335,000)	(1,335,000)	-
<b>Change in Fund Balances</b>	47,610	70,051	74,581	4,530
<b>Fund Balances, Beginning of Year</b>	444,570	444,570	444,570	-
<b>Fund Balances, End of Year</b>	\$ 492,180	\$ 514,621	\$ 519,151	\$ 4,530

See independent auditor's report.

**SUPPLEMENTAL INFORMATION**

**CITY OF LEESVILLE LOUISIANA**  
**UNAUDITED SCHEDULE OF INSURANCE IN FORCE**  
**JUNE 30, 2004**

**Schedule 3**  
(Continued)

Insurer	Expiration Date	Coverage	Property Covered	Limits
Louisiana Municipal Risk Management Agency	5/1/2007	Automobile liability	Owned, hired, & non-owned automobiles	\$ 500,000 CSL
	5/1/2007	Commercial general liability	Premises/operations - BI & PD Products/completed operations - BI & PD Medical payments Per person Per accident Fire legal liability per occurrence	500,000 CSL 500,000 CSL 1,000 10,000 50,000
	5/1/2007	Law enforcement officers' comprehensive liability	Personal injury and property damage Deductible \$5,000	500,000 CSL
	5/1/2007	Public officials' errors and omissions liability	Errors and omissions Deductible \$5,000	500,000 CSL
The Hanover Insurance Company	1/30/2005	Fire and extended coverage	Various City-owned buildings and personal property 80% coinsurance Deductible \$1,000 Buildings in aggregate Personal property in aggregate	2,516,150 5,732
Western Surety Company	7/1/2004 7/1/2004	Public officials	Mayor Director of finance	90,000 100,000

See independent auditor's report.

**CITY OF LEESVILLE LOUISIANA**  
**UNAUDITED SCHEDULE OF INSURANCE IN FORCE**  
**JUNE 30, 2004**

**Schedule 3**  
(Continued)

Insurer	Expiration Date	Coverage	Property Covered	Limits
Allstate	1/16/2005	Fire and extended coverage	Various City-owned buildings and personal property Deductible \$1,000	\$ 1,314,000 171,000
XL Specialty Insurance Co	1/14/2005	Airport liability	Sale of Aircraft Fuel and Oil Products Premises Medical - per person Fire damage per occurrence Hangerkeepers per aircraft - deductible \$2,500 Hangerkeepers per occurrence - deductible \$2,500 Personal injury Advertising liability	33,000 1,000 50,000 200,000 500,000 1,000,000 1,000,000
Allstate	12/22/2004	Commercial property Wastewater treatment plant	Buildings - deductible \$1,000 Personal property - deductible \$1,000 Aeration basin roaters - deductible \$1,000	75,000 255,000 1,306,000
	2/27/2005	Commercial property	Scheduled computers - deductible \$500 Scheduled equipment - deductible \$500	54,086 140,989
Southern States General Agency, Inc.	8/27/2004	Commercial property	Scheduled equipment - deductible \$500	99,536

See independent auditor's report.

**CITY OF LEESVILLE LOUISIANA**  
**UNAUDITED SCHEDULE OF INSURANCE IN FORCE**  
**JUNE 30, 2004**

**Schedule 3**  
(Concluded)

Insurer	Expiration Date	Coverage	Property Covered	Limits
Allstate	7/21/2004	Commercial property	Vernon Parish 911 office Building - deductible \$1,000 Personal property - deductible \$1,000 Property floater - 80% coinsurance Computer coverage - deductible \$250	\$ 50,000 10,000 25,000 5,000
American Reliable Insurance Company	8/28/2004	Comprehensive mobile home and adjacent structures	Mobile home - deductible \$250	9,500
Louisiana Workmen's Compensation Corporation	1/1/2005	Worker's compensation	Bodily injury by accident Bodily injury by disease	100,000 500,000
Essex Insurance Company	5/1/2005	Commercial auto physical damage	Certain automobiles purchased through capital leases Deductible \$500 specified perils Deductible \$500 collision	121,000
Evanston Insurance Company	8/5/2004	Vacant buildings	Industrial Park buildings 80% coinsurance Deductible \$5,000 Buildings in aggregate	2,381,179
Checkmaster Agency	10/27/2005	Check protector	Liability forgery protection	25,000
CNA Surety	12/31/2004	Blanket security bond	Public employees	5,000
CNA Surety	12/31/2004	Blanket security bond	Reserve officers	5,000

See independent auditor's report.

**OTHER REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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





PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Jim Shapkoff, Jr., Mayor  
and Members of the City Council  
City of Leesville, Louisiana

We have audited the financial statements of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the City of Leesville, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the City of Leesville's basic financial statements and have issued our report thereon dated December 23, 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Leesville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as Finding 2004-01 through Finding 2004-08.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Leesville'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Leesville's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding 2004-09 through Finding 2004-15.

MARVIN A. JUNEAU, C.P.A.  
H. FRED RANDOW, C.P.A.  
ERNEST F. SASSER, C.P.A.

ROBERT L. LITTON, C.P.A.  
ROBERT W. DVORAK, C.P.A.  
REBECCA B. MORRIS, C.P.A.

MICHAEL A. JUNEAU, C.P.A.  
JAMES N. BALLARD, C.P.A.  
L. PAUL HOOB, C.P.A.





PAYNE, MOORE & HERRINGTON, LLP

The Honorable Jim Shapkoff, Jr., Mayor  
and Members of the City Council  
City of Leesville, Louisiana

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 2004-09 through Finding 2004-12 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Leesville, Louisiana, in a separate letter, entitled *Other Comments and Recommendations*, dated December 23, 2004.

This report is intended solely for the information and use of the Mayor, members of the City Council, management of the City of Leesville, Louisiana, and the Legislative Auditor's office of the State of Louisiana. This report is not intended to be, and should not be, used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is in fact a public document.

*Payne, Moore, & Herrington, LLP*  
Certified Public Accountants

December 23, 2004

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

**PART I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>  X  </u>	Yes	<u>      </u> No
Reportable condition(s) identified not considered to be material weaknesses?	<u>  X  </u>	Yes	<u>      </u> None reported
Noncompliance material to the financial statements?	<u>  X  </u>	Yes	<u>      </u> No
Management's Corrective Action Plan	See Attached		
Management's Summary Schedule of Prior Audit Findings	See Attached		
Memorandum of Recommendations and Other Comments	See Attached		

Federal Awards

Not Applicable

**PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED UNDER GOVERNMENT AUDITING STANDARDS**

FINDING 2004-01

BOND INDENTURE COMPLIANCE

*Criteria:* Various indentures for bonds require the City to establish and maintain sinking funds and, in some cases, reserve and contingency funds; and specify that sinking funds, reserve funds and contingency funds be fully funded prior to using any remaining funds for other purposes.

*Conditions:*

General Obligation Bonds, Series 1995, of Sewer District No. 3 and General Obligation Bonds of the City: Funds were not transferred to the Sewer System Renewal and Replacement Fund in accordance with Section 5.2 of the agreement. At year-end, cumulative additions to the reserve fund were \$48,859 less than the amount required by the bond agreement.

Water System Refunding Bonds, Series 1998:

Monthly transfers to the sinking fund as required by the covenants were not made. One lump sum transfer was made to the sinking fund. At June 30, 2004, a deficit of \$27,669 existed in the sinking fund. Monthly transfers to the contingency fund have not been made as required by the covenants. However, some periodic lump sum transfers were made to the contingency fund. At year-end, cumulative transfers to the contingency fund were \$23,070 less than the amount required by the bond indentures. Operating transfers were made to the General Fund prior to funding the above sinking and contingency funds.

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

*Recommendation:* We recommend that the City comply with the requirements of the indentures or agreements for the various bonds.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-02

PERSONAL USE OF CELL PHONES

*Criteria:* Personal use of an employer provided cell phone is a taxable fringe benefit. It is also a violation of R.S. 42:1461 (A) to make personal calls on cell phones provided by the City and fail to reimburse the City.

*Condition:* The City does not have a set policy regarding cell phone usage. Employees are not required to report or reimburse the City for personal cell phone usage; therefore, we were not able to determine the amount of unreimbursed personal cell phone usage, if any.

*Recommendation:* We recommend that the City adopt a policy to account for any personal use of cell phones by all employees. A value of the personal use should be established and the employee can reimburse the City for the usage or the City can include the value as wages to the employee.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-03

COLLECTION OF DELINQUENT CUSTOMER UTILITY ACCOUNTS

*Criteria:* Insufficient effort to collect delinquent accounts receivable may be considered a violation of Article VII, Section 14 of the Louisiana Constitution.

*Condition:* Management has specified policies regarding termination of service to customers with delinquent utility accounts and such accounts are transferred in the computer system to a specific group code designated for bad debt. No further efforts are being made to collect these delinquent accounts.

*Recommendation:* We recommend that the City develop a written policy for collecting delinquent accounts receivable and enforce that policy.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-04

COMPLIANCE WITH LOUISIANA BID LAW

*Criteria:* Any purchase in excess of \$20,000 by a local governmental unit of a used or new motor vehicle for conversion into a law enforcement vehicle must be advertised and let for bid under the procedures of the Louisiana bid law.

*Condition:* During the current period the City purchased six new police vehicles with total cost exceeding \$130,000. The City's minutes indicated that these vehicles were purchased under state contract. However, the City was not able to provide supporting documentation proving that the purchase was, in fact, under state contract.

*Recommendation:* We recommend that the City maintain documentation of compliance with bid law requirements.

*Management's Response:* See Management's Corrective Action Plan

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

FINDING 2004-05

APPROVAL FOR INCURRENCE OF DEBT

*Criteria:* Article 7, Section 8 of the Louisiana Constitution requires any political subdivision of the state to obtain prior written approval of the state bond commission to incur debt obligations.

*Condition:* On June 3, 2004, the City entered into a Promissory Note with Sabine State Bank and Trust Company for the purchase of six new police vehicles totaling \$130,252. The City could not provide documentation that the state bond commission had approved the debt. A letter of commitment from Sabine State Bank and Trust Company indicated that financing for this purchase would be in the form of a lease-purchase agreement that included a non-appropriation clause. The actual executed document between the City and Sabine State Bank and Trust Company is a promissory note that does not contain a non-appropriation clause that would exempt the note from bond commission approval.

*Recommendations:* We recommend that the City obtain state bond commission approval prior to incurring any debt obligation or ensure that any lease-purchase agreements contain a non-appropriation clause.

*Management's Response:* See Management's Corrective Action Plan

FINDING 2004-06

COMPLIANCE WITH CODE OF ETHICS

*Criteria:* Louisiana Revised Statute 42:112 prohibits a public employee or elected official from participating in a transaction in which he has a personal substantial economic interest involving the governmental entity.

*Condition:* During the current period, the City paid \$1,408 to a company that we understand is owned in part by the mayor, resulting in a possible violation of the state's code of ethics.

*Recommendation:* We recommend that the City comply with Louisiana law and refrain from such transactions. We also recommend that the City obtain an ethics ruling on this matter.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-07

LATE FILING OF AUDIT REPORT

*Criteria:* Louisiana Revised Statutes provide that audits of governmental entities shall be completed within six (6) months of the close of the entity's fiscal year and shall be filed with the office of the Legislative Auditor within that time period.

*Condition:* Due to several extraordinary factors, the report was not completed by the required due date and, therefore, was not filed until after the required due date.

*Management's Response:* See Management's Corrective Action Plan.

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

FINDING 2004-08

REPORTING DETECTIVES' CLOTHING ALLOWANCE

*Criteria:* IRS regulations require employers to report expense allowances paid under a nonaccountable plan with wages on Form W-2.

*Condition:* The City pays detectives \$500 per year for clothing allowances. The detectives do not have to provide proof of their expenses to the City, and they can keep any funds that they do not spend. The City does not include this clothing allowance with wages on the employees' Form W-2.

*Recommendation:* The City should include as wages on Form W-2 any expense allowance paid to employees under a nonaccountable plan.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-09

RECONCILIATION OF UTILITY ACCOUNTS RECEIVABLE

*Criteria:* The objectives of internal controls are to provide management with reasonable assurance that assets are safeguarded against loss and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

*Condition:* A reconciliation of the utility billings, adjusted for appropriate changes, to the amount collected was not maintained. A subsidiary ledger of the accounts outstanding, as of June 30, 2004, was not prepared. A considerable effort was required by both City personnel and audit staff to provide assurance that utility billings, as adjusted and reflected in the financial statements, are materially correct.

*Recommendation:* We recommend that the City adopt policies and procedures that require a reconciliation of utility billings, subsequent collections of such amounts, and an adequate receivable aging report. Policies should provide that each of these procedures is timely completed and reports provided to the Accounting Manager at least monthly.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-10

PURCHASING POLICIES AND PROCEDURES

*Criteria:* The City has written accounts payable policies and procedures outlining purchasing guidelines which include approval of all invoices by a representative of the originating department prior to payment either by a completed check request form or by signature on the actual invoice. A purchase requisition is required for all purchases greater than \$50. Purchase orders are issued for approved purchase requisitions. Invoices must include an approved purchase order number. Invoices with no approved purchase order are returned to the vendor.

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

*Condition:* As part of our test of cash disbursements, we examined all related supporting documentation for 40 randomly selected disbursements. Of the 40 examined, 17 invoices included no purchase order number, no approved requisition or check request, and/or no invoice approval by the originating department. In addition 2 check requests lacked the proper approval. During other audit tests, we noted many additional instances of purchase orders containing no approval, invoices dated prior to the date on the purchase orders and requisitions, and purchase orders and requisitions containing the same signature for requestor and approver.

*Recommendation:* We recommend that the City follow established purchasing policies and procedures.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-11

FILING AND RETENTION OF SUPPORTING DOCUMENTATION

*Criteria:* A filing system that ensures the retention and the subsequent location of supporting documentation of transactions is an integral part of internal controls.

*Condition:* Little or no supporting documentation was available for receipts and deposits.

*Recommendation:* We recommend that all receipts and deposits should be supported by adequate documentation to ensure that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-12

CONTROLS OVER FUEL USAGE

*Criteria:* Controls over gasoline pumps should be adequate to ensure that supporting documentation for gasoline usage identifies the vehicle and pump meter readings. Such documentation should be reviewed promptly for reasonableness.

*Condition:* The fuel machine that records the amount of fuel available and used has been broken since March 2004. No fuel expense had been recorded in the general ledger to the various departments since that time.

*Recommendation:* We recommend that back up controls should be developed until the fuel machine is repaired to provide management with reasonable assurance that assets are safeguarded against loss and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

*Management's Response:* See Management's Corrective Action Plan.

**CITY OF LEESVILLE, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

FINDING 2004-13

ACCOUNTING FOR DOTD LOAN PROCEEDS

*Criteria:* The objectives of internal controls are to provide management with reasonable assurance that assets are safeguarded against loss and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

*Condition:* During the current period a utility relocation project was funded with Louisiana Department of Transportation and Development loan proceeds. This funding was incorrectly recorded as grant revenues by accounting personnel because they were not aware that the funding was in fact a loan that requires repayment. Issuance of permits to the City by the Louisiana Department of Transportation and Development for location of additional longitudinal facilities within any state owned right of way is contingent upon repayment of this funding.

*Recommendation:* We recommend that all pertinent information should be communicated to the accounting department to ensure that adequate data is available to understand the funding aspects of projects. Procedures should be established on each ongoing project to provide periodic review and to determine that proper accounting and expenditure reimbursements have been made. A plan should also be developed to ensure repayment of the funds once the project has been completed.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-14

CONTROLS OVER CAPITAL ASSETS

*Criteria:* Controls are necessary in physical safeguarding of capital assets from unauthorized use and theft.

*Condition:* The City has no policy for tagging or physical inventory of capital assets.

*Recommendation:* We recommend that the City develop a system of marking and identifying city owned capital assets and complete a physical inventory of such assets at least annually.

*Management's Response:* See Management's Corrective Action Plan.

FINDING 2004-15

LATE PAYMENT OF PAYROLL TAXES AND OTHER DISBURSEMENTS

*Criteria:* Payroll taxes and other disbursements should be paid timely to avoid penalty and interest charges for late payment.

*Condition:* For the current period the City paid in excess of \$38,000 for penalty and interest on late payment of payroll taxes. It was also noted in performing various audit tests of disbursements that many invoices were paid late resulting in additional late charges.

*Recommendation:* We recommend that payroll taxes and other disbursements be paid timely to avoid penalty and interest charges for late payment. Management should also utilize monthly budgets as a tool to manage the various departments and control spending to ensure that cash flows are adequate to meet obligations incurred.

*Management's Response:* See Management's Corrective Action Plan.



**OTHER COMMENTS AND RECOMMENDATIONS**



PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

OTHER COMMENTS AND RECOMMENDATIONS

The Honorable Jim Shapkoff, Jr., Mayor  
and Members of the City Council  
City of Leesville, Louisiana

In planning and performing our audit of the basic financial statements of the City of Leesville, Louisiana, as of and for the year ended June 30, 2004, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls, operating efficiency, and compliance. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report, dated December 23, 2004, contains our report on reportable conditions on the City's internal control. This letter does not affect our report, dated December 23, 2004, on the basic financial statements of the City of Leesville, Louisiana.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with management personnel, and we will be pleased to discuss them in detail at your convenience.

*Payne, Moore, & Herrington, LLP*  
Certified Public Accountants

December 23, 2004

MARVIN A. JUNEAU, C.P.A. | ROBERT L. LITTON, C.P.A. | MICHAEL A. JUNEAU, C.P.A.  
H. FRED RANDOW, C.P.A. | ROBERT W. DYORAK, C.P.A. | JAMES N. BALLARD, C.P.A.  
ERNEST F. SASSER, C.P.A. | REBECCA B. MORRIS, C.P.A. | L. PAUL HODD, C.P.A.

## MEMORANDUM OF OTHER COMMENTS AND RECOMMENDATIONS

### FINDING 2004-16

### OLD OUTSTANDING CHECKS

*Criteria:* An effective bank reconciliation process should include procedures whereby checks outstanding for a considerable time are periodically reviewed for propriety.

*Condition:* The June 30, 2004, bank reconciliation for the accounts payable control account includes checks outstanding since January 1999.

*Recommendation:* We recommend that the City's bank reconciliation process include review of old outstanding checks for propriety.

*Management's Response:* See Management's Corrective Action Plan.

### FINDING 2004-17

### CONTROLS OVER BLANK CHECKS

*Criteria:* Adequate controls should exist over blank checks to ensure that assets are safeguarded against loss.

*Condition:* Blank checks are not located in a locked secure location and are easily accessible to all employees.

*Recommendation:* We recommend that blank checks be locked in a fire proof safe with access available to only limited employees.

*Management's Response:* See Management's Corrective Action Plan.

**MANAGEMENT'S CORRECTIVE ACTION PLAN**

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2004**

<b>SECTION I: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
Finding 2004-01	<u>BOND INDENTURE COMPLIANCE</u>
Response	The City will strive to make the required monthly debt service sinking fund deposits on a timely basis.
Finding 2004-02	<u>PERSONAL USE OF CELL PHONES</u>
Response	The City is working on adopting a policy for cell phone use that will comply with state law.
Finding 2004-03	<u>COLLECTION OF DELINQUENT CUSTOMER UTILITY ACCOUNTS</u>
Response	The City has in the past worked with Credit Bureau Services reporting customers' delinquent utility accounts and will work on developing a written policy for collection of these delinquent accounts.
Finding 2004-04	<u>COMPLIANCE WITH LOUISIANA BID LAW</u>
Response	The City will strive to maintain documentation of compliance with bid law requirements.
Finding 2004-05	<u>APPROVAL FOR INCURRENCE OF DEBT</u>
Response	The City is in the process of obtaining a revised promissory note from Sabine State Bank and Trust Company, which will include the required nonappropriation clause.
Finding 2004-06	<u>COMPLIANCE WITH CODE OF ETHICS</u>
Response	The City will refrain from such transactions until such time as our City Attorney can obtain an ethics ruling on this matter.
Finding 2004-07	<u>LATE FILING OF AUDIT REPORT</u>
Response	The City had no control over the CPA firm's unforeseen circumstances which resulted in the audit report not being completed timely.
Finding 2004-08	<u>REPORTING DETECTIVES' CLOTHING ALLOWANCE</u>
Response	The City will begin including paid clothing allowances to detectives as wages reportable on Form W-2.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2004**

<b>SECTION I: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
Finding 2004-09	<u>RECONCILIATION OF UTILITY ACCOUNTS RECEIVABLE</u>
Response	The City will adopt policies and procedures which will require all utility system reports to be completed in a timely manner.
Finding 2004-10	<u>PURCHASING POLICIES AND PROCEDURES</u>
Response	The City will strive to follow the established purchasing policies and procedures.
Finding 2004-11	<u>FILING AND RETENTION OF SUPPORTING DOCUMENTATION</u>
Response	The City has implemented a new cashier procedure that encompasses the filing of supporting documentation which will allow all supporting documentation to be attached to all receipts and/or deposits in the future.
Finding 2004-12	<u>CONTROLS OVER FUEL USAGE</u>
Response	The City is currently in the process of purchasing a new fuel system which will track all fuel purchased and consumed and will aid in the proper recording of fuel expenses by various city departments.
Finding 2004-13	<u>ACCOUNTING FOR DOTD LOAN PROCEEDS</u>
Response	The City will establish procedures to review ongoing projects to determine a plan to ensure repayment of the funds once the project is complete.
Finding 2004-14	<u>CONTROLS OVER CAPITAL ASSETS</u>
Response	The City will establish a policy for marking and identifying city owned capital assets and complete a physical inventory of such assets annually.
Finding 2004-15	<u>LATE PAYMENT OF PAYROLL TAXES AND OTHER DISBURSEMENTS</u>
Response	The City will utilize monthly budgets as a tool to control spending to ensure cash flows are adequate to meet obligations incurred.

**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2004**

<b>SECTION II: OTHER COMMENTS AND RECOMMENDATIONS (MANAGEMENT LETTER)</b>	
Finding 2004-16	<u>OLD OUTSTANDING CHECKS</u>
Response	The City will begin to review old outstanding checks for propriety.
Finding 2004-17	<u>CONTROLS OVER BLANK CHECKS</u>
Response	The City will look into purchasing a locked fire proof safe large enough to store a stockpile of checks in order to ensure limited access.

**MANAGEMENT'S SCHEDULE OF PRIOR YEAR FINDINGS**



**CITY OF LEESVILLE, LOUISIANA  
MANAGEMENT'S SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2004**

<b>SECTION I: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>		
Finding 2003-01	Compliance with Asset Management Laws	No longer applicable.
Finding 2003-02	Compliance with Bond Indentures	Not Resolved. See 2004-01
Finding 2003-03	Personal Use of Cell Phones	Not Resolved. See 2004-02
Finding 2003-04	Lack of Supporting Documentation for Tax Roll Changes	Resolved.
Finding 2003-05	Lack of Adequate Supporting Documentation for Travel	Resolved.
Finding 2003-06	Adjustments to Water and Sewer Customers' Accounts	Resolved.
<b>SECTION II: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b>		
	None reported.	
<b>SECTION III: OTHER COMMENTS AND RECOMMENDATIONS (MANAGEMENT LETTER)</b>		
	None reported.	