

LEGISLATIVE AUDITOR
STATE OF LOUISIANA



TOWN OF HOMER

HOMER, LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED OCTOBER 27, 2004

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

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September 10, 2004

Independent Auditor's Report
on the Financial Statements

HONORABLE HUEY DEAN, MAYOR,
AND MEMBERS OF THE BOARD OF SELECTMEN
TOWN OF HOMER
Homer, Louisiana

We have audited the accompanying primary government financial statements of the Town of Homer (town), as of and for the nine months ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to determine the Utilities and Sanitation Fund accounts receivable balance stated at \$149,270 at December 31, 2003, because of inadequate accounting records. The town could not locate the December 2003 detailed accounts receivable customer listing nor could the town reproduce this report.

The listing of general fixed assets equipment, stated at \$1,322,233, at December 31, 2003, is not current or complete. We were unable to determine the equipment balance because of the inadequate accounting records.

As disclosed in note 1(E) to the financial statements, the accompanying primary government financial statements do not include comparative budget and actual statements which is a departure from accounting principles generally accepted in the United States of America.

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. Such legally separate entities are referred to as component units. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence to determine the accounts receivable and equipment balances as discussed in paragraphs three and four, and except for the effects of not presenting the comparative budget and actual statements as discussed in the preceding paragraph, the primary government financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the primary government of the Town of Homer, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

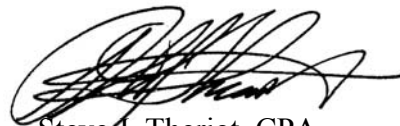
However, the primary government financial statements, because they do not include the financial data of the Homer Memorial Hospital, a component unit of the Town of Homer, do not purport to, and do not, present fairly the financial position of the Town of Homer, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying primary government financial statements are as of and for the nine months ended December 31, 2003. The town's prior audited financial statements were as of and for the nine months ended March 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004, on our consideration of the Town of Homer's internal control over financial reporting and 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 accompanying financial information listed as Supplemental Information Schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of Homer. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence to determine the accounts receivable and equipment balances as discussed in paragraphs three and four, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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TOWN OF HOMER
Homer, Louisiana
ALL FUND TYPES AND ACCOUNT GROUPS

Balance Sheet, December 31, 2003

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS			
Assets:			
Cash and cash equivalents (overdraft) (note 4)	\$233,258	\$598,889	\$12,761
Investments (note 5)		102,812	
Receivables: (note 6)			
Accounts (net of allowance for uncollectible accounts)			
Ad valorem taxes	20,546		
Sales taxes	36,492	52,080	
Franchise taxes	24,694		
Grants	7,858		
Interest	21		
Due from other funds (note 7)	5,272	7,000	
Meter deposits	2,130	250	
Restricted assets (note 4 and note 16) - cash and cash equivalents			
Land (note 8)			
Buildings (note 8)			
Improvements other than buildings (note 8)			
Airport (note 8)			
Equipment (note 8)			
Enterprise Fund property, plant, and equipment (note 8)			
Accumulated depreciation (note 8)			
Assets under capital lease (note 13)			
Other debits - amounts to be provided for retirement of general long-term lease obligation (note 13)			
TOTAL ASSETS AND OTHER DEBITS	<u>\$330,271</u>	<u>\$761,031</u>	<u>\$12,761</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable (note 10)	\$35,181	\$17,082	
Payroll liabilities payable (note 10)	40,916		
Due to other funds (note 7)	20,966	5,272	
Deferred revenue (note 12)	5,037		
Payable from restricted assets:			
Revenue bonds payable - current (note 14)			
Accrued interest			
Customer utility deposits			
Obligations under capital lease (note 13)			
Revenue bonds payable - long-term (note 14)			
Total Liabilities	<u>102,100</u>	<u>22,354</u>	<u>NONE</u>

(Continued)

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND TYPE - ENTERPRISE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
			\$470,167
(\$374,741)			102,812
			149,270
149,270			20,546
			88,572
			24,694
11,939			19,797
414			435
13,966			26,238
			2,380
414,149			414,149
	\$87,743		87,743
	1,175,298		1,175,298
	4,726,014		4,726,014
	497,802		497,802
	1,322,233		1,322,233
11,207,752			11,207,752
(5,000,935)			(5,000,935)
	59,544		59,544
		\$42,259	42,259
<u>\$6,421,814</u>	<u>\$7,868,634</u>	<u>\$42,259</u>	<u>\$15,436,770</u>
\$109,978			\$162,241
6,248			47,164
			26,238
			5,037
41,785			41,785
15,845			15,845
82,885			82,885
		\$42,259	42,259
2,624,139			2,624,139
<u>2,880,880</u>	<u>NONE</u>	<u>42,259</u>	<u>3,047,593</u>

TOWN OF HOMER
Homer, Louisiana
ALL FUND TYPES AND ACCOUNT GROUPS
Balance Sheet, December 31, 2003

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
LIABILITIES AND FUND EQUITY (Cont.)			
Equity:			
Investment in general fixed assets (note 8)			
Contributed capital (net of accumulated amortization) (note 15)			
Retained earnings:			
Reserved for:			
Revenue bond retirement (note 17)			
Bond depreciation and contingency (note 17)			
Unreserved (deficit) (note 2 and note 18)			
Fund balances:			
Unreserved:			
Designated (note 17)	\$37,224		
Undesignated (note 19)	190,947	\$738,677	\$12,761
Total Equity	<u>228,171</u>	<u>738,677</u>	<u>12,761</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$330,271</u>	 <u>\$761,031</u>	 <u>\$12,761</u>

(Concluded)

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND TYPE - ENTERPRISE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
	\$7,868,634		\$7,868,634
\$3,705,201			3,705,201
57,165			57,165
225,978			225,978
(447,410)			(447,410)
			37,224
			942,385
<u>3,540,934</u>	<u>7,868,634</u>	<u>NONE</u>	<u>12,389,177</u>
<u>\$6,421,814</u>	<u>\$7,868,634</u>	<u>\$42,259</u>	<u>\$15,436,770</u>

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TOWN OF HOMER
Homer, Louisiana
GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Nine Months Ended December 31, 2003

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TOTALS (MEMORANDUM ONLY)
REVENUES				
Taxes	\$366,331	\$408,289		\$774,620
Licenses and permits	134,563			134,563
Intergovernmental	60,254	25,000	\$74,132	159,386
On-behalf payments by state	24,300			24,300
Fines and forfeitures	17,634			17,634
Interest	1,853	1,058	22	2,933
Miscellaneous	71,360	39,217		110,577
Total revenues	<u>676,295</u>	<u>473,564</u>	<u>74,154</u>	<u>1,224,013</u>
EXPENDITURES				
General government	274,901	4,881		279,782
Public safety	268,700	80,085		348,785
Highways and streets	74,309	87,417		161,726
Parks and recreation		35,909		35,909
Public works	43,600			43,600
Industrial development		3,513		3,513
Capital outlay			85,428	85,428
Total expenditures	<u>661,510</u>	<u>211,805</u>	<u>85,428</u>	<u>958,743</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>14,785</u>	<u>261,759</u>	<u>(11,274)</u>	<u>265,270</u>
OTHER FINANCING SOURCES				
Operating transfers in	90,000		20,000	110,000
Operating transfers out		(110,000)		(110,000)
Total other sources (uses)	<u>90,000</u>	<u>(110,000)</u>	<u>20,000</u>	<u>NONE</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>104,785</u>	<u>151,759</u>	<u>8,726</u>	<u>265,270</u>
FUND BALANCES AT BEGINNING OF YEAR (As Restated)	<u>123,386</u>	<u>586,918</u>	<u>4,035</u>	<u>714,339</u>
FUND BALANCES AT END OF YEAR	<u><u>\$228,171</u></u>	<u><u>\$738,677</u></u>	<u><u>\$12,761</u></u>	<u><u>\$979,609</u></u>

The accompanying notes are an integral part of this statement.

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TOWN OF HOMER
Homer, Louisiana
PROPRIETARY FUND - UTILITIES AND SANITATION FUND

Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Nine Months Ended December 31, 2003

OPERATING REVENUES	
Charges for services	<u>\$816,234</u>
OPERATING EXPENSES	
Depreciation	182,412
Cost of services	<u>778,207</u>
Total operating expenses	<u>960,619</u>
OPERATING LOSS	<u>(144,385)</u>
NONOPERATING REVENUES (Expenses)	
Investment income	1,349
Interest expense	<u>(111,447)</u>
Total nonoperating revenues (expenses)	<u>(110,098)</u>
NET LOSS	(254,483)
RETAINED EARNINGS AT BEGINNING OF YEAR (As Restated)	15,155
AMORTIZATION OF CONTRIBUTED CAPITAL	<u>75,061</u>
RETAINED EARNINGS (Deficit) AT END OF YEAR	<u><u>(\$164,267)</u></u>

The accompanying notes are an integral part of this statement.

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**TOWN OF HOMER
Homer, Louisiana
PROPRIETARY FUND - UTILITIES AND SANITATION FUND****Statement of Cash Flows
For the Nine Months Ended December 31, 2003****CASH FLOWS FROM OPERATING ACTIVITIES**

Operating loss		(\$144,385)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	\$182,412	
(Increase) in receivables	(54,235)	
Increase (decrease) in:		
Accounts payable	59,384	
Accrued liabilities	(20,646)	
Total adjustments	<u>166,915</u>	
Net cash used by operating activities		<u>22,530</u>

CASH FLOWS (Uses) FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets		(12,141)
Principal paid on revenue bonds		(42,932)
Proceeds from federal grants		12,141
Interest paid on revenue bonds		<u>(111,447)</u>
Net cash used for capital and related financing activities		<u>(154,379)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on interest-bearing deposits		<u>1,349</u>
---------------------------------------	--	--------------

NET DECREASE IN CASH AND CASH EQUIVALENTS (130,500)**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 169,908**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$39,408

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Town of Homer (town) was incorporated March 13, 1850, and granted a special charter under the provisions of Act No. 36 of the Louisiana Legislature. The town is located in the parish of Claiborne and has a population of approximately 4,000. The town operates under a Board of Selectmen - Mayor form of government and, as permitted under the act, provides police protection; roads, streets, and sidewalks; sponsorship of federal and state supported programs; water and sewer utilities; and other necessary public services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying primary government financial statements of the Town of Homer have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

As the municipal governing authority, for reporting purposes, the Town of Homer is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary municipal government (Town of Homer), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 14 established criteria for determining which component units should be considered part of the Town of Homer for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. GASB has set forth criteria to be considered in determining financial accountability. These criteria include:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the town to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the municipality.
2. Organizations for which the town does not appoint a voting majority but are fiscally dependent on the town.

3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based on the previous criteria, the town has determined that Homer Memorial Hospital is a component unit and part of the reporting entity. However, the town has chosen to issue financial statements of the primary government (Town of Homer) only; therefore, Homer Memorial Hospital is not included in the accompanying financial statements.

GASB Statement No. 14 provides for the issuance of primary government financial statements that are separate from those of the reporting entity. However, the primary government's (Town of Homer) financial statements are not a substitute for the reporting entity's financial statements. The accompanying primary government financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. These financial statements are not intended to and do not report on the reporting entity but rather are intended to reflect only the financial statements of the primary government (Town of Homer).

The town's officials are also responsible for appointing the members of the board of the Housing Authority of the Town of Homer. This agency is considered to be a related organization since the town appoints the separate governing board but is not financially accountable for the organization. The financial statements for the Housing Authority of the Town of Homer are not included in the accompanying financial statements.

C. FUND ACCOUNTING

The accounts of the town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Funds

Governmental funds are used to account for all or most of the government's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. Governmental funds include the following:

1. General Fund - The General Fund is the general operating fund of the town. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
3. Capital Projects Funds - The capital projects funds are used to account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

Proprietary Fund

The proprietary fund accounts for activities similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The proprietary fund differs from a governmental fund in that its focus is on income measurement, which, together with the maintenance of equity, is an important financial indicator. The proprietary fund of the town is the Utilities and Sanitation Fund (an enterprise fund), which accounts for the operations of the waterworks system, sewerage system, and garbage collection. The intent of the town for these facilities is that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Activities accounted for in the town's proprietary fund follow all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the funds on the balance sheet with long-term assets and liabilities reported in the account groups. Operating statements of these funds present increases (revenues and other financial sources) and decreases (expenditures and other uses) in net current assets.

Governmental funds are maintained on the modified accrual basis of accounting wherein revenues are recognized in the accounting period in which they become available and measurable. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues from property taxes, net of estimated uncollectible amounts, are recognized in the period for which the taxes are levied. Sales tax and franchise tax revenues and related assets are recognized in the same period that the exchange transaction on which the tax is imposed occurs. Licenses, permits, fines, forfeits, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Charges for services are recorded when earned since they are measurable and available.

Revenues from state and federal grants are recognized when the reimbursable expenditures have been incurred. Expenditures are recognized in the accounting period in which the liability is incurred, except for principal and interest payments for general long-term obligations which are recognized when due.

The Utilities and Sanitation Fund (proprietary fund) is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the balance sheet. Fund equity (net total assets) is segregated into contributed capital and retained earnings components. The operating statement for the proprietary fund presents increases (revenues) and decreases (expenses) in net total assets.

The Utilities and Sanitation Fund is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

E. BUDGET PRACTICES

The town's budget practices are as follows:

1. The town clerk prepares a proposed budget and submits same to the Mayor and Board of Selectmen no later than 15 days prior to the beginning of each fiscal year.
2. The public is notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After the holding of public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
5. The budgets for the General and Special Revenue funds are prepared on a cash basis that is not consistent with generally accepted accounting principles. Because the town did not prepare financial statements, the budgets were not used by management for comparison to actual results.
6. Appropriations (unexpended budget balances) lapse at year-end.

Although the town legally adopted budgets for the General and Special Revenue funds, for the fiscal years ending June 30, 2003 and 2004, the financial statements do not include comparative budget and actual statements which is a departure from accounting principles generally accepted in the United States of America.

F. ENCUMBRANCES

The town does not use encumbrance accounting.

G. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the proprietary fund (Utilities and Sanitation Fund) considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

H. INVESTMENTS

Investments in the Louisiana Asset Management Pool includes only securities and other obligations in which the town is authorized to invest in and are stated at fair value based on quoted market rates.

I. RECEIVABLES

Receivables are shown net of an allowance for uncollectibles. Uncollectible amounts due for water sales, sewer system fees, and sanitation services are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivables. Estimated uncollectible amounts for property taxes are recorded as a reduction of current revenues.

**J. SHORT-TERM INTERFUND
RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

K. RESTRICTED ASSETS

Certain resources (cash) in the Utilities and Sanitation Fund (proprietary fund) are set aside for the repayment of water and sewer revenue bonds and are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants (sinking fund requirements, reserve requirements, and depreciation and contingency requirements). Also, restricted assets include cash set aside for the refunding of customers' meter deposits.

L. FIXED ASSETS

Fixed assets of governmental funds are recorded as expenditures at the time purchased or constructed, and the related assets are capitalized (reported) in the general fixed assets

account group. Public domain or infrastructures are not capitalized. No depreciation has been provided on general fixed assets. Fixed assets are valued at historical cost. Donated assets are recorded at their fair market value at the date of donation.

Fixed assets used in the Utilities and Sanitation Fund operations are included on the balance sheet net of accumulated depreciation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Depreciation of all exhaustible fixed assets used by the Utilities and Sanitation Fund operations is charged as an expense against operations. Depreciation is computed using the straight-line method based on estimated useful lives of the assets as follows:

Buildings	40 years
Generating equipment	40 years
Transmission and distribution	25 years
Fence	10 years
Water wells	40 years
Water tanks and reservoirs	40 years
Water line distribution system	40 years
Water meters	40 years
Water treatment plant filter system	40 years
Sewer system	40 years
Auto and trucks	5-10 years
Equipment	5-10 years
Office equipment	10 years

Contributed capital is recorded in the Utilities and Sanitation Fund to account for contributions of capital assets from other governments and agencies and to recognize grants and other contributed funds dedicated and restricted to the acquisition or construction of capital assets.

M. COMPENSATED ABSENCES

Employees of the town earn vacation leave depending upon their length of service. Employees may not accumulate and carry forward days of vacation leave beyond the end of each calendar year except in cases of emergency. In addition, employees can earn compensatory leave for working overtime. All vacation and compensatory leave is expected to be liquidated with expendable financial resources and is considered short-term and is recognized as a liability in the General Fund and Enterprise Fund, as appropriate.

The town does not pay accrued sick leave to employees upon termination; therefore, no accrual is made for accumulated sick leave in the accompanying financial statements.

N. DEFERRED REVENUE

Ad valorem tax revenues not collected within 60 days after the due date (December 31) are susceptible to deferral.

O. LONG-TERM OBLIGATIONS

Long-term obligations expected to be financed from governmental funds are reported in the general long-term debt account group. Expenditures for principal and interest payments for long-term obligations are recognized in the governmental funds when due. Long-term obligations expected to be financed from proprietary fund operations are accounted for in those funds.

P. FUND EQUITY

Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds when such resources are restricted for the acquisition or construction of capital assets. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources. This depreciation is closed to the contributed capital account and is reflected as an adjustment to net income.

Reserves

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

Designated Fund Balances

Designated fund balances represent tentative plans for future use of financial resources.

Q. INTERFUND TRANSACTIONS

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

R. SALES TAXES

Under the provisions of the sales and use tax ordinance effective October 1, 1971, one percent sales and use tax collected may be used for the following purposes:

- a. Opening, constructing, paving, resurfacing, improving and/or maintaining streets, alleys, sidewalks and bridges
- b. Constructing, acquiring, extending, improving, renovating and/or maintaining street lighting facilities, waterworks, sewers and sewerage disposal works, garbage collection and waste disposal facilities, police department stations and equipment, public buildings and/or fire department stations and equipment, including fire engines, public parks and recreation facilities, and industrial development facilities
- c. Purchasing and acquiring the necessary land, equipment and furnishings for the aforesaid public works, buildings, improvements and facilities, title to which improvements shall be in the public, or for any one or more said purposes
- d. Provided that a minimum of 20% of the net revenues received from this tax shall be dedicated and used for industrial development facilities

Under the provisions of the sales and use tax ordinance effective January 1, 1986, one percent sales and use tax collected may be used for the following purposes (after paying the reasonable and necessary expenses of collecting and administering the tax):

- a. Sixty percent (60%) for constructing, paving, resurfacing, improving, and/or maintaining streets in and for the town
- b. Ten percent (10%) for constructing, acquiring, improving, and/or maintaining fire department stations and facilities for said town, including fire trucks and appurtenances
- c. Ten percent (10%) for constructing, acquiring, extending, improving, operating and/or maintaining recreational facilities for said town
- d. Ten percent (10%) for constructing, acquiring, extending, improving, and/or maintaining police department facilities for said town, including the acquisition of all necessary equipment
- e. Ten percent (10%) to be used for any one or more of the above purposes as may be determined by the governing authority of the town

Approximately 21% of the total sales taxes remitted to the town are collected from two businesses in the town.

S. BAD DEBTS

Uncollectible amounts due for customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

T. TOTAL COLUMNS ON STATEMENTS

Total columns on the statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. FUND DEFICITS

The Utilities and Sanitation Fund has a \$447,410 deficit in unreserved retained earnings at December 31, 2003. Management has no formal plan for the elimination of the deficit; however, on February 2, 2004, the board approved an additional \$5 monthly charge to all customers that receive water services.

3. AD VALOREM TAXES

Ad valorem taxes attach as an enforceable lien on the valuation of property as of January 1 of each year. Taxes are levied by the town in November and billed to the taxpayers in December. Billed taxes become delinquent on January 1 of the following year. The town bills and collects its property taxes using the assessed values determined by the tax assessor of Claiborne Parish.

For the nine months ended December 31, 2003, taxes of 8.94 mills were levied on property with assessed valuations totaling \$11,917,359 and were dedicated as follows:

General corporate purposes 8.94 mills

Total taxes levied for the nine months ended December 31, 2003, totaled \$106,542.

4. CASH AND CASH EQUIVALENTS

At December 31, 2003, the town has cash and cash equivalents (book balances) totaling \$884,316 as follows:

Petty cash	\$500
Demand deposits	743,254
Time deposits	<u>140,562</u>
Total	<u><u>\$884,316</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of certain securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. Securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2003, the town has \$948,470 in deposits (collected bank balances). These deposits are secured from risk by \$200,123 of federal deposit insurance (GASB Risk Category 1) and a \$1,000,000 Federal Home Loan Bank letter of credit (GASB Risk Category 3) pledged by the fiscal agent bank.

5. INVESTMENTS

At December 31, 2003, the town has investments totaling \$102,812 in the Louisiana Asset Management Pool (LAMP), a local government investment pool. In accordance with GASB Codification Section I50.126, the investment in LAMP at December 31, 2003, is not categorized in the three risk categories provided by GASB Codification Section I50.125 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form.

LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with Louisiana Revised Statute 33:2955.

The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares. LAMP is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the Securities and Exchange Commission as an investment company.

6. RECEIVABLES

Receivables as of December 31, 2003, are as follows:

NOTES TO THE FINANCIAL STATEMENTS

	General Fund	Special Revenue Fund	Utilities and Sanitation Fund	Total
Taxes:				
Ad valorem	\$20,546			\$20,546
Sales	36,492	\$52,080		88,572
Franchise	24,694			24,694
Grant	7,858		\$11,939	19,797
Utilities and sanitation:				
Billed			106,497	106,497
Unbilled			45,611	45,611
Less - allowance for uncollectibles			(2,838)	(2,838)
Interest	21		414	435
Total	\$89,611	\$52,080	\$161,623	\$303,314

7. INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payables as of December 31, 2003, consisted of the following:

	Interfund Receivables	Interfund Payables
General Fund	\$5,272	\$20,966
Special Revenue Funds:		
Industrial Development Fund	7,000	
Tourism Fund		5,272
Utilities and Sanitation Fund	13,966	
Total	\$26,238	\$26,238

8. FIXED ASSETS

The changes in general fixed assets follows:

	Balance March 31, 2003	Additions	Deductions	Balance December 31, 2003
Land	\$87,743			\$87,743
Buildings	1,125,071	\$50,227		1,175,298
Improvements other than buildings	4,683,213	42,801		4,726,014
Airport	464,188	33,614		497,802
Equipment	1,316,293	5,940		1,322,233
Assets under capital leases	59,544			59,544
Construction in progress	19,900	11,217	(\$31,117)	
Total	\$7,755,952	\$143,799	(\$31,117)	\$7,868,634

A summary of proprietary property, plant, and equipment at December 31, 2003, follows:

Land	\$13,330
Buildings and improvements	10,829,653
Machinery and equipment	<u>364,769</u>
Subtotal	11,207,752
Less - accumulated depreciation	<u>(5,000,935)</u>
Total	<u><u>\$6,206,817</u></u>

During the nine months ended December 31, 2003, the proprietary fund had additions of \$116,442 to property, plant, and equipment. Depreciation expense of the proprietary fund for the nine months ended December 31, 2003, totaled \$182,412.

9. PENSION PLAN

Substantially all full-time employees of the Town of Homer are members of the following statewide retirement systems: Municipal Employees Retirement System of Louisiana and Municipal Police Employees Retirement System of Louisiana. These systems are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:

A. Municipal Employees' Retirement System of Louisiana (System)

Plan Description. All permanent employees working at least an average of 35 hours per week, including the mayor, who are not members of any retirement system financed wholly or partly by public funds for the retirement of employees by the state of Louisiana or by a city, parish, village, or other political subdivision in the state of Louisiana, are eligible to participate in the System. The System is composed of two separate and distinct accounts known as Plan A and Plan B. The Town of Homer participates in Plan A.

Under Plan A, members are eligible to retire and receive normal retirement benefits if (1) the member has credit for at least twenty-five years of Plan A service, regardless of age; or (2) the member has credit for at least ten years of Plan A service and is at least sixty years of age. Normal retirement benefits are paid monthly for the life of the retiree and, if an optional mode of benefit is selected, a benefit reduced from the maximum will be paid to the retiree for life. The monthly maximum Plan A normal retirement benefit is an amount equal to 3% of the member's final compensation multiplied by the member's years of creditable service. Final compensation is the member's average monthly earnings during the highest paid 36 consecutive months or joined months if service was interrupted.

A person who has credit for ten or more years of service, who ceases to be an employee prior to attaining the age required for normal retirement eligibility, and who does not withdraw his/her accumulated employee contributions from the System will become

eligible for normal retirement benefits upon attaining the required age. The computation of such benefits will be based on the provisions of law, which were in effect at the time the person withdrew from service and will be based on the final compensation and creditable service at the time of withdrawal. The System also provides early retirement benefits, disability benefits, and survivor benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees' Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (225) 925-4810 or (800) 820-1137.

Funding Policy. Under Plan A, members are required by state statute to contribute 9.25% of earnings from each and every payment of earnings and the town (employer) contributes a percentage of each employee's earnings as determined each year by the Public Retirement Systems' Actuarial Committee. The town's contribution rate was 8% during the period from April 1, 2003 through June 30, 2003, and was increased to 11% effective July 1, 2003. The contribution requirements of plan members and the Town of Homer are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Town of Homer's contributions to the System under Plan A for the nine months ending December 31, 2003, totaled \$27,940, equal to the required contributions for the nine months. Contributions to the System also include one-fourth of one percent (except Orleans and East Baton Rouge parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan.

B. Municipal Police Employees' Retirement System of Louisiana (System)

Plan Description. All full-time police department employees, including the elected chief of police, engaged in law enforcement are required to participate in the System. Members are eligible for regular retirement when a member has (1) 25 years or more service, at any age; (2) 20 years or more service, at age 50 or thereafter; or (3) 12 years or more service, at age 55 or thereafter. Any member who meets the eligibility requirements for normal or early retirement may elect to receive his/her benefit in an equal monthly retirement allowance payable throughout life, or he/she may elect to receive the actuarial equivalent at the time of retirement in a reduced equal monthly retirement allowance payable throughout life. The maximum monthly benefit is an amount equal to 3 1/3% of the member's annual final average compensation multiplied by the member's years of creditable service. Final average compensation is the member's average annual earned compensation based on the 36 highest successive months of employment or on the highest 36 successive joined months of employment where interruption of service occurred.

Members may leave employment after obtaining the minimum number of years service credit needed to retire, but before obtaining the required age, and leave their contributions on deposit with the System to qualify for monthly benefits upon reaching the minimum age for regular retirement. The System also provides disability benefits and survivor benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees' Retirement System of Louisiana, 7722 Office Park Boulevard, Suite 200, Baton Rouge, Louisiana 70809, or by calling (225) 929-7411 or (800) 443-4248.

Funding Policy. Plan members are required by state statute to contribute 7.5% of their earnable compensation and the town (employer) is required to contribute at an actuarially determined rate. The town's contribution rate was 9% of earnable compensation during the period from April 1, 2003, through June 30, 2003, and was increased to 15.25% effective July 1, 2003. The contribution requirements of plan members and the town are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The difference between the annually actuarially required employer contribution rate and the 15.25% rate established by statute is funded through assessments against casualty insurers in the State of Louisiana. The Town of Homer's contributions to the System for the nine months ending December 31, 2003, totaled \$19,080, equal to the required contributions for nine months.

10. ACCOUNTS, WAGES, AND OTHER PAYABLES

The following is a summary of payables at December 31, 2003:

	General Fund	Special Revenue Funds	Utilities and Sanitation Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accounts payable	\$35,181	\$17,082	\$109,978	\$162,241
Payroll liabilities payable:				
Accrued wages	6,884		1,942	8,826
Accrued leave	12,824		4,306	17,130
Retirement and tax withholdings	<u>21,208</u>			<u>21,208</u>
 Total	 <u>\$76,097</u>	 <u>\$17,082</u>	 <u>\$116,226</u>	 <u>\$209,405</u>

11. COMPENSATED ABSENCES

At December 31, 2003, employees of the Town of Homer have accumulated \$17,130 of compensatory leave benefits. Of this amount, \$12,824 is recorded as an obligation of the General Fund, and \$4,306 is recorded as an obligation of the Utilities and Sanitation Fund (proprietary fund).

12. DEFERRED REVENUE

At December 31, 2003, the town recorded deferred revenue totaling \$5,037, primarily relating to ad valorem taxes not collected within 60 days after the due date (December 31, 2003).

13. CAPITAL LEASE

On February 20, 2003, the town financed the purchase (\$59,544) of three vehicles with Ford Motor Credit Company at 6% interest. The lease purchase agreement requires the town to pay \$1,802 per month for 36 months (3 years) and provides the town the option to purchase the vehicles at the end of the lease term, upon written notice.

The vehicles purchased under capital lease are recorded as assets and obligations in the accompanying financial statements. The leased assets and related obligations are accounted for in the General Fixed Asset Account Group and General Long-Term Debt Account Group, respectively.

The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 2003:

	General Long-Term Obligations <u>Account Group</u>
<u>Year Ending December 31:</u>	
2004	\$21,630
2005	21,630
2006	<u>1,801</u>
Total minimum lease payments	45,061
Less - amount representing interest	<u>(2,802)</u>
 Present value of net minimum lease payments	 <u><u>\$42,259</u></u>

14. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the nine months ended December 31, 2003:

	<u>Revenue</u>
Bonds payable at March 31, 2003	\$2,708,856
Bond principal payments	<u>(42,932)</u>
 Bonds payable at December 31, 2003	 <u><u>\$2,665,924</u></u>

TOWN OF HOMER

The town pledged its water system revenues and sewer system revenues as security for the repayment of the bonds. Bonds payable at December 31, 2003, are comprised of the following:

\$590,000 Sewer Revenue Bonds dated June 28, 1996; payable over a 40-year period, with the first annual installment of \$32,367 commencing on November 28, 1996, through November 28, 2035; interest at 4.50%	\$541,895
\$1,200,000 Sewer Revenue Bonds dated November 28, 1988; payable over a 40-year period, due in annual installments of \$76,500 in November 1989 and \$84,048 from 1990 through 2028; interest at 6.375%	1,030,651
\$1,201,000 Water Revenue Bonds dated July 15, 1994; payable over a 40-year period, with the first payment of \$43,068 of interest due on July 15, 1995. Commencing August 15, 1995, through July 15, 2034, equal monthly installments of \$6,041 consisting of principal and interest; interest at 5.25%	<u>1,093,378</u>
Total revenue bonds	<u><u>\$2,665,924</u></u>

The annual requirements to amortize all revenue bonds outstanding as of December 31, 2003, including interest payments of \$2,601,753, are as follows:

Year Ending December 31:	
2004	\$188,908
2005	188,908
2006	188,908
2007	188,908
2008	188,908
2009-2013	944,539
2014-2018	944,539
2019-2023	944,539
2024-2028	910,763
2029-2033	521,357
2034-2038	<u>57,400</u>
Total	<u><u>\$5,267,677</u></u>

The town is in violation of certain restrictive covenants of the water and sewer revenue bond agreements. The town charges water and sewer rates that are substantially less than the minimum rates mandated under the agreements. In addition, the town has not established separate rate structures for residential and commercial customers in accordance with the

agreements. Also, the town does not maintain insurance coverage on its water and sewer facilities as required.

15. CHANGES IN CONTRIBUTED CAPITAL

The Utilities and Sanitation Fund received contributions from federal and state sources for the purposes of acquiring or constructing water and sewer facilities and equipment.

The addition and source of contributed capital during the nine months ended December 31, 2003, follows:

Contributed capital - March 31, 2003	\$3,768,121
Addition:	
U.S. Department of Housing and Urban Development - Louisiana Community Development Block Grant - water well improvements	12,141
Deduction - depreciation on fixed assets acquired by grants	<u>(75,061)</u>
Contributed capital - December 31, 2003	<u><u>\$3,705,201</u></u>

16. RESTRICTED ASSETS - PROPRIETARY FUND

Restricted assets are applicable to the following at December 31, 2003:

	<u>Utilities and Sanitation Fund</u>
Cash:	
Customer meter deposits	\$35,818
Contingency funds - revenue bonds	116,396
Reserve funds - revenue bonds	109,582
Sinking funds - revenue bonds	57,165
Certificates of deposit - customer meter deposits and reserve funds	<u>95,188</u>
Total	<u><u>\$414,149</u></u>

Components of restricted assets are as follows:

Sinking Funds

The Town of Homer is required by Rural Development and other debt covenants to maintain Sinking Funds into which 1/12 of the annual installment for note payments are deposited each month.

Reserve Funds

Funds will be transferred into this fund in amounts of \$486 monthly for sewer bonds and \$303 monthly for water bonds until such time as there has been accumulated \$116,415 and \$72,492, respectively.

Contingency Funds

Funds will be transferred into this fund in amounts of \$492 monthly for sewer bonds and \$320 monthly for water bonds.

17. RESERVED AND DESIGNATED RETAINED EARNINGS/FUND BALANCE

At December 31, 2003, the Utilities and Sanitation Fund (proprietary fund) has the following amounts of retained earnings designated as reserved:

Reserve for revenue bond retirement	\$57,165
Reserve for bond depreciation and contingency	225,978

At December 31, 2003, the General Fund has \$37,224 of fund balance designated for street repair and improvements.

18. RETAINED EARNINGS RESTATEMENT

Proprietary Fund (Utilities and Sanitation Fund) retained earnings previously reported at March 31, 2003, in the amount of \$102,470, has been decreased by \$87,315 to write off uncollectible receivables at that date.

19. FUND BALANCE RESTATEMENTS

Undesignated fund balance previously reported at March 31, 2003, for the General Fund and Special Revenue Fund have been increased by \$81,258, and \$51,764, respectively, as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Unreserved		
	Designated	Undesignated	Total
General Fund			
Fund balance at beginning of year, as previously reported	\$36,687	\$5,441	\$42,128
Adjustment for understatement of sales tax and franchise tax revenues		60,033	60,033
Adjustment for overstatement of payroll tax expenditures		21,225	21,225
	<u>\$36,687</u>	<u>\$86,699</u>	<u>\$123,386</u>
Fund balance at beginning of year, as restated	<u>\$36,687</u>	<u>\$86,699</u>	<u>\$123,386</u>
	Unreserved Undesignated		
Special Revenue Fund			
Fund balance at beginning of year, as previously reported	\$535,154		
Adjustment for understatement of sales tax revenues	51,764		
	<u>\$586,918</u>		
Fund balance at beginning of year, as restated	<u>\$586,918</u>		

20. ON-BEHALF PAYMENTS

During the nine months ended December 31, 2003, the town's police chief and eight police officers each received \$300 per month in police supplemental pay from the State of Louisiana, Department of Public Safety and Corrections, totaling \$24,300. The town recognizes this supplemental pay received by the employees as revenues and expenditures of the town. The revenues are reported in the General Fund and the expenditures are included in Public Safety expenditures.

21. COMMITMENTS

On August 28, 2002, the town entered into a contract with a company to operate and maintain the town's wastewater treatment plant. The initial term of the contract was for one year commencing on September 3, 2002, for a base annual fee of \$167,462. In September 2003, the contract was automatically renewed quarterly. For the nine months ended December 31, 2003, the town paid the company a total of \$126,677.

On April 6, 1999, the town entered into a five-year contract with a company to collect all of the town's residential solid waste (garbage). The contract provides for a monthly residential charge of \$8.33 for curbside collection and \$12.77 for backdoor collection. For the nine months ended December 31, 2003, the town paid the company a total of \$145,665.

22. CONTINGENCIES

The town is involved in several open liability claims. Management and legal counsel informed us that claims are either adequately covered by insurance or not expected to have a material effect on the financial statements.

In addition, there is an unasserted claim relating to compensatory (overtime) hours accumulated by the town's elected chief of police. The town does not have a formal policy for elected officials earning overtime and has not recorded a liability in the accompanying financial statements. The town is unable to anticipate the outcome of this unasserted claim.

23. ESTIMATES

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

24. RISK MANAGEMENT

The town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The town attempts to minimize risk from significant losses through the purchase of insurance.

25. SUBSEQUENT EVENTS

In a letter dated February 23, 2004, from the State of Louisiana Department of Environmental Quality (DEQ), the town was served a Consolidated Compliance Order and Notice of Potential Penalty because of violations of a Compliance Order previously issued the town on May 19, 2003. The town has a Louisiana Pollutant Discharge Elimination System Permit (effective February 1, 2000, with an expiration date of January 31, 2005) that authorizes the town to discharge treated sanitary wastewater from its facility to an unnamed ditch, thence into D'Arbonne Bayou, waters of the state. DEQ conducted an inspection in August 2003 and a file review in February 2004 that revealed numerous permit excursions. The violations could result in the issuance of a civil penalty of not more than \$27,500 for each day of violation or referral to the Department of Justice for appropriate legal actions. DEQ has ordered the town to immediately take any and all steps necessary to meet and maintain compliance with its permit, including, but not limited to, proper operation and maintenance of all equipment and meeting all effluent limitations. In response, the town and its contract operator addressed the deficiencies and submitted a report to DEQ in March 2004, maintaining that the wastewater plant is back to full environmental compliance.

On April 19, 2004, the town council approved dropping the town's general liability insurance coverage and setting up a separate escrow account for self-insurance purposes and voted to place \$15,000 in that account each year. As of September 10, 2004, the town has not funded the escrow account.

26. GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board (GASB) issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, in June 1999. The date of implementation is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999 (earlier application is encouraged). The Town of Homer's total annual revenues were less than \$10 million in the fiscal year ending June 30, 1999; therefore, the Town of Homer is required (phase 3) to implement the provisions for the pronouncement for financial statements for the period beginning after June 15, 2003. GASB Statement Number 34 establishes a new governmental financial reporting model that will feature, among other significant changes, management discussion and analysis, a unique combination of fund-based and government-wide financial statements, required supplementary information, accounting for infrastructure assets, and accounting for the depreciation of infrastructure assets. The effects on the town's financial statement are not known at this time; however, the pronouncement will be implemented for the year ending December 31, 2004.

GENERAL FUND

To account for resources traditionally associated with governments that are not required to be accounted for in another fund

Schedule 1

Schedule of Revenues, Expenditures, and Other Financing Sources, by Source

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TOWN OF HOMER
Homer, Louisiana
GENERAL FUND

Schedule of Revenues, Expenditures, and
Other Financing Sources, by Source
For the Nine Months Ended December 31, 2003

REVENUES

Taxes:	
Sales	\$264,057
Ad valorem	102,274
Total taxes	<u>366,331</u>
Licenses and permits:	
Occupational licenses	9,490
Utility franchise fees	89,932
Building permits	1,660
Burial permits	782
Insurance premium taxes	32,699
Total licenses and permits	<u>134,563</u>
Intergovernmental	<u>60,254</u>
On-behalf payments by state	<u>24,300</u>
Fines and forfeitures	<u>17,634</u>
Interest earned on investments	<u>1,853</u>
Miscellaneous:	
Sales tax administration fees	13,472
Cemetery donations	4,500
Town Hall rental	3,675
Other	49,713
Total miscellaneous	<u>71,360</u>
Total Revenues	<u><u>\$676,295</u></u>

(Continued)

TOWN OF HOMER
Homer, Louisiana
GENERAL FUND
Schedule of Revenues, Expenditures, and
Other Financing Sources, by Source
For the Nine Months Ended December 31, 2003

EXPENDITURES

General government:

Salaries:

Mayor and selectmen	\$17,400
Office	23,535
Maintenance	14,895
Postage	3,369
Supplies	2,215
Repairs	5,453
Machine maintenance	302
Office equipment rent	1,939
Accounting and auditing	6,081
Legal fees	3,630
Advertising	965
Office supplies	3,943
Dues and subscriptions	2,263
Convention and travel	1,269
Tax assessor's fees	791
Telephone	9,427
Gas and heating	606
Electricity	38,118
Liability insurance	26,260
Property insurance	4,374
Workmen's compensation	14,331
Employee insurance	38,960
Employee retirement	32,903
Payroll taxes	8,730
Unemployment taxes	638
Miscellaneous	11,704
Claiborne Council on Aging	800
Total general government	<u>274,901</u>

(Continued)

TOWN OF HOMER
Homer, Louisiana
GENERAL FUND
Schedule of Revenues, Expenditures, and
Other Financing Sources, by Source
For the Nine Months Ended December 31, 2003

EXPENDITURES (CONT.)

Public safety:	
Salaries - police department	\$205,268
Capital lease	3,670
On-behalf payments from state	24,300
Prisoner expense	25,508
Indigent defender	3,203
Coroner expense	3,113
Animal control	3,427
Miscellaneous	211
Total public safety	<u>268,700</u>
Highways and streets - salaries - street department	<u>74,309</u>
Public works:	
Cemetery supplies	310
Airport supplies	3,846
Airport improvements	33,614
Museum expense	4,913
Miscellaneous	917
Total public works	<u>43,600</u>
Total Expenditures	<u><u>\$661,510</u></u>
OTHER FINANCING SOURCES	
Operating transfers in:	
Street fund	\$85,000
Fire fund	5,000
Total Other Sources	<u><u>\$90,000</u></u>

(Concluded)

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SPECIAL REVENUE FUNDS

Industrial Development Fund

The Industrial Development Fund is used to account for 20% of the net revenues of the sales and use tax which is dedicated and used for industrial development facilities.

Street Department Fund

The Street Department Fund is used to account for the operations of the street maintenance department. Financing is primarily provided by a one cent sales and use tax ordinance effective January 1, 1986. The ordinance provides that after paying the reasonable and necessary expenses of collecting and administering the tax, 60% would be used for constructing, paving, resurfacing, improving, and/or maintaining streets in and for the town.

Fire Department Fund

The Fire Department Fund is used to account for the operations of the fire department. Financing is primarily provided by a one cent sales and use tax ordinance effective January 1, 1986. The ordinance provides that after paying the reasonable and necessary expenses of collecting and administering the tax, 10% would be for constructing, paving, resurfacing, improving and/or maintaining the town's fire department stations and facilities, including fire trucks and appurtenances.

Police Department Fund

The Police Department Fund is used to account for the operations of the police department. Financing is primarily provided by a one cent sales and use tax ordinance effective January 1, 1986. The ordinance provides that after paying the reasonable and necessary expenses of collecting and administering the tax, 10% would be for constructing, acquiring, extending, improving, operating and/or maintaining the town's police department facilities, including the acquisition of all necessary equipment.

Recreation Department Fund

The Recreation Department Fund is used to account for the operations of the recreation department. Financing is primarily provided by a one cent sales and use tax ordinance effective January 1, 1986. The ordinance provides that after paying the reasonable and necessary expenses of collecting and administering the tax, 10% would be used for constructing, acquiring, expending, improving, operating and/or maintaining the town's recreational facilities.

Contingency Fund

The Contingency Sales Tax Fund is used to account for the receipt and use of proceeds of the town's sales and use tax. Under the provisions of the sales and use tax ordinance effective January 1, 1986, 10% is to be used for any one or more of the purposes that the remaining 90%

of the tax is allowed. The apportionment of this 10% will be determined by the governing authority of the town.

Tourism Fund

The Tourism Fund is used to account for a portion of state sales tax collected on hotel/motel occupancy received by the Town of Homer. These monies are to be used solely for economic development within the Town of Homer.

Schedule 2

Combining Balance Sheet

Schedule 3

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

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TOWN OF HOMER
Homer, Louisiana
SPECIAL REVENUE FUNDS

Combining Balance Sheet, December 31, 2003

	INDUSTRIAL DEVELOPMENT FUND	STREET FUND	FIRE FUND	RECREATION FUND
ASSETS				
Cash	\$340,922	\$103,314	\$55,328	\$24,286
Investments	102,812			
Receivables	8,680	26,040	4,340	4,340
Due from other funds	7,000			
Other assets	250			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$459,664</u>	<u>\$129,354</u>	<u>\$59,668</u>	<u>\$28,626</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$217	\$4,304	\$709	\$7,642
Due to other funds				
Total Liabilities	<u>217</u>	<u>4,304</u>	<u>709</u>	<u>7,642</u>
Fund balances - unreserved and undesignated	<u>459,447</u>	<u>125,050</u>	<u>58,959</u>	<u>20,984</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCE:	<u>\$459,664</u>	<u>\$129,354</u>	<u>\$59,668</u>	<u>\$28,626</u>

<u>POLICE FUND</u>	<u>CONTINGENCY FUND</u>	<u>TOURISM FUND</u>	<u>TOTALS</u>
\$16,936	\$33,294	\$24,809	\$598,889
			102,812
4,340	4,340		52,080
			7,000
			250
<u>\$21,276</u>	<u>\$37,634</u>	<u>\$24,809</u>	<u>\$761,031</u>
\$4,210			\$17,082
		5,272	5,272
4,210	NONE	5,272	22,354
17,066	\$37,634	19,537	738,677
<u>\$21,276</u>	<u>\$37,634</u>	<u>\$24,809</u>	<u>\$761,031</u>

TOWN OF HOMER
Homer, Louisiana
SPECIAL REVENUE FUNDS

**Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Nine Months Ended December 31, 2003**

	INDUSTRIAL DEVELOPMENT FUND	STREET FUND	FIRE FUND	RECREATION FUND
REVENUES				
Taxes	\$66,014	\$198,043	\$33,007	\$33,307
Intergovernmental			25,000	
Interest	952			
Miscellaneous		17,743	17,889	
Total revenues	<u>66,966</u>	<u>215,786</u>	<u>75,896</u>	<u>33,307</u>
EXPENDITURES				
General government				
Public safety			41,729	
Highways and streets		87,417		
Parks and recreation				35,909
Industrial development	3,513			
Total expenditures	<u>3,513</u>	<u>87,417</u>	<u>41,729</u>	<u>35,909</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>63,453</u>	<u>128,369</u>	<u>34,167</u>	<u>(2,602)</u>
Other sources and uses:				
Operating transfers from (to):				
Special revenue funds				10,000
Capital Project Fund	(20,000)			
General Fund		(85,000)	(5,000)	
Total other sources (uses)	<u>(20,000)</u>	<u>(85,000)</u>	<u>(5,000)</u>	<u>10,000</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	43,453	43,369	29,167	7,398
FUND BALANCES AT BEGINNING OF YEAR (As Restated)	<u>415,994</u>	<u>81,681</u>	<u>29,792</u>	<u>13,586</u>
FUND BALANCES AT END OF YEAR	<u>\$459,447</u>	<u>\$125,050</u>	<u>\$58,959</u>	<u>\$20,984</u>

<u>POLICE FUND</u>	<u>CONTINGENCY FUND</u>	<u>TOURISM FUND</u>	<u>TOTALS</u>
\$33,007	\$33,007	\$11,904	\$408,289
			25,000
		106	1,058
3,286		299	39,217
<u>36,293</u>	<u>33,007</u>	<u>12,309</u>	<u>473,564</u>
		4,881	4,881
38,356			80,085
			87,417
			35,909
			3,513
<u>38,356</u>	<u>NONE</u>	<u>4,881</u>	<u>211,805</u>
(2,063)	33,007	7,428	261,759
			(20,000)
10,500	(20,500)		(90,000)
<u>10,500</u>	<u>(20,500)</u>	<u>NONE</u>	<u>(110,000)</u>
8,437	12,507	7,428	151,759
8,629	25,127	12,109	586,918
<u>\$17,066</u>	<u>\$37,634</u>	<u>\$19,537</u>	<u>\$738,677</u>

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CAPITAL PROJECTS FUNDS

Mayfield Bicycle Trail

The Mayfield Bicycle Trail Fund accounts for the activity related to a grant received to construct a recreational trail.

Homer By-Pass

The Homer By-Pass Fund accounts for the activity related to a grant received to study a Homer By-Pass (road) project.

Sewer Construction

The Sewer Construction Fund accounts for the activity related to a rural development grant received for sewer system improvements and equipment.

Ford Museum

The Ford Museum Fund accounts for the activity related to a rural development grant received for renovations of the Ford Museum building.

Street Improvement

The Street Improvement Fund accounts for the activity related to a community development block grant received for street improvements.

Water Well

The Water Well Fund accounts for the activity related to a community development block grant received for water well improvements.

Wooden Buildings

The Wooden Buildings Fund accounts for the activity related to a rural development grant for capital improvements to two town-owned properties within the Homer Historic District.

Schedule 4

Combining Balance Sheet

Schedule 5

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

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TOWN OF HOMER
Homer, Louisiana
CAPITAL PROJECTS FUNDS

Combining Balance Sheet, December 31, 2003

	<u>MAYFIELD BICYCLE TRAIL</u>	<u>HOMER BY-PASS</u>	<u>SEWER CONSTRUCTION</u>
ASSETS			
Cash	\$115	\$8	\$3,843
TOTAL ASSETS	<u>\$115</u>	<u>\$8</u>	<u>\$3,843</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Total liabilities	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Fund balances - unreserved and undesignated	<u>\$115</u>	<u>\$8</u>	<u>\$3,843</u>
TOTAL LIABILITIES AND FUND BALANCE:	<u>\$115</u>	<u>\$8</u>	<u>\$3,843</u>

<u>FORD MUSEUM</u>	<u>STREET IMPROVEMENT</u>	<u>WATER WELL</u>	<u>WOODEN BUILDINGS</u>	<u>TOTAL</u>
<u>\$1,653</u>	<u>NONE</u>	<u>\$2</u>	<u>\$7,140</u>	<u>\$12,761</u>
<u>\$1,653</u>	<u>NONE</u>	<u>\$2</u>	<u>\$7,140</u>	<u>\$12,761</u>
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
<u>\$1,653</u>	<u>NONE</u>	<u>\$2</u>	<u>\$7,140</u>	<u>\$12,761</u>
<u>\$1,653</u>	<u>NONE</u>	<u>\$2</u>	<u>\$7,140</u>	<u>\$12,761</u>

TOWN OF HOMER
Homer, Louisiana
CAPITAL PROJECTS FUNDS

**Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
For the Nine Months Ended December 31, 2003**

	<u>MAYFIELD BICYCLE TRAIL</u>	<u>HOMER BY-PASS</u>	<u>SEWER CONSTRUCTION</u>
REVENUES			
Grant proceeds:			
Office of Community Development			
Rural Development			
Interest earned			\$22
Total Revenues	<u>NONE</u>	<u>NONE</u>	<u>22</u>
EXPENDITURES			
Construction			
Engineering			
Consultant and administrative			
Miscellaneous expense			90
Total expenditures	<u>NONE</u>	<u>NONE</u>	<u>90</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	NONE	NONE	(68)
Other (uses) and sources - operating transfers from (to) - transfer from Industrial Development Fund	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	NONE	NONE	(68)
FUND BALANCES AT BEGINNING OF YEAR	<u>\$115</u>	<u>\$8</u>	<u>3,911</u>
FUND BALANCES AT END OF YEAR	<u>\$115</u>	<u>\$8</u>	<u>\$3,843</u>

<u>FORD MUSEUM</u>	<u>STREET IMPROVEMENT</u>	<u>WATER WELL</u>	<u>WOODEN BUILDINGS</u>	<u>TOTAL</u>
	\$42,801	\$12,142		\$54,943
\$12,939			\$6,250	19,189
				22
<u>12,939</u>	<u>42,801</u>	<u>12,142</u>	<u>6,250</u>	<u>74,154</u>
11,217	21,646	7,926	19,110	59,899
		1,335		1,335
	21,155	2,880		24,035
69				159
<u>11,286</u>	<u>42,801</u>	<u>12,141</u>	<u>19,110</u>	<u>85,428</u>
1,653	NONE	1	(12,860)	(11,274)
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>20,000</u>	<u>20,000</u>
1,653	NONE	1	7,140	8,726
<u>NONE</u>	<u>NONE</u>	<u>1</u>	<u>NONE</u>	<u>4,035</u>
<u>\$1,653</u>	<u>NONE</u>	<u>\$2</u>	<u>\$7,140</u>	<u>\$12,761</u>

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PROPRIETARY FUND

Utilities and Sanitation

The Utilities and Sanitation Fund accounts for the water, sewer, and sanitation services provided to residents of the town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Schedule 6

Schedule of Revenues, Expenses, and Changes in Retained Earnings

Schedule 7

Schedule of Operating Expenses, by Departments

Schedule 8

Schedule of Compensation Paid Board Members

TOWN OF HOMER
Homer, Louisiana
PROPRIETARY FUND - UTILITIES AND SANITATION FUND

Schedule of Revenues, Expenses,
and Changes in Retained Earnings
For the Nine Months Ended December 31, 2003

OPERATING REVENUES

Water sales and service	\$333,819
Sewer fees	298,928
Sanitation fees	149,562
Delinquent fees	19,584
Miscellaneous	14,341
Total operating revenues	<u>816,234</u>

OPERATING EXPENSES

Water department	136,567
Sewer department	240,608
Sanitation department	145,665
General and administrative	255,367
Depreciation	182,412
Total operating expenses	<u>960,619</u>

OPERATING LOSS (144,385)

NONOPERATING REVENUES (Expenses)

Investment income	1,349
Interest expense	(111,447)
Total nonoperating revenues (expenses)	<u>(110,098)</u>

NET LOSS (254,483)

RETAINED EARNINGS AT BEGINNING OF YEAR (As Restated) 15,155

AMORTIZATION OF CONTRIBUTED CAPITAL 75,061

RETAINED EARNINGS (Deficit) AT END OF YEAR (\$164,267)

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TOWN OF HOMER
Homer, Louisiana
PROPRIETARY FUND - UTILITIES AND SANITATION FUND

Schedule of Operating Expenses, by Departments
For the Nine Months Ended December 31, 2003

OPERATING EXPENSES

Water department expenses:

Salaries	\$44,077	
Electricity	30,664	
Supplies expense	38,395	
Sales tax expense	14,886	
Well repairs	8,378	
Miscellaneous	167	
Total water department		\$136,567

Sewer department expenses:

Salaries	67,555	
Contract services	126,676	
Supplies expense	37,814	
Electricity	8,563	
Total sewer department		240,608

Sanitation department expenses -
contract services

145,665

General and administrative expenses:

Salaries - mayor and selectmen	17,400	
Salaries - office	23,535	
Postage	3,369	
Supplies	2,215	
Repairs	5,453	
Maintenance	302	
Office equipment rent	1,938	
Accounting and auditing	6,081	
Legal fees	3,630	
Advertising	965	
Office supplies	3,942	
Dues and subscriptions	2,263	

(Continued)

TOWN OF HOMER
Homer, Louisiana
PROPRIETARY FUND - UTILITIES AND SANITATION FUND
Schedule of Operating Expenses, by Departments
For the Nine Months Ended December 31, 2003

OPERATING EXPENSES (CONT.)

General and administrative expenses: (Cont.)

Convention and travel	\$1,269	
Tax assessor's fees	791	
Telephone	9,427	
Gas and heating	607	
Electricity	38,118	
Liability insurance	26,260	
Property insurance	4,374	
Workmen's compensation	14,331	
Employee insurance	38,960	
Employee retirement	23,510	
Payroll taxes	8,730	
Unemployment	639	
Miscellaneous	17,258	
Total general and administrative expense		\$255,367

Depreciation expense 182,412

Total operating expenses \$960,619

(Concluded)

TOWN OF HOMER
Homer, Louisiana

Schedule of Compensation Paid Board Members
For the Nine Months Ended December 31, 2003

	<u>AMOUNT</u>
Huey Dean, Mayor	\$18,000
Selectmen:	
Billy Kirk Jenkins	3,600
John C. Moore	3,600
Johnette Faulkner	3,600
Thomas McDonald	3,600
Jesse J. Ford	<u>3,600</u>
 Total	 <u><u>\$36,000</u></u>

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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September 10, 2004

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

**HONORABLE HUEY DEAN, MAYOR,
AND MEMBERS OF THE BOARD OF SELECTMEN
TOWN OF HOMER**
Homer, Louisiana

We have audited the primary government financial statements of the Town of Homer as of and for the nine months ended December 31, 2003, and have issued our report thereon dated September 10, 2004, which was qualified because we could not determine the Utilities and Sanitation Fund accounts receivable balance and the general fixed assets equipment balance and because the comparative budget and actual statements were not presented. Except for the matters discussed previously regarding the accounts receivable and equipment balances, 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 Town of Homer's primary government 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* and are described in the accompanying Financial Statement Findings in Appendix B as items Dec 03-01, Dec 03-02, Dec 03-03, Dec 03-04, Dec 03-05, Dec 03-06, Dec 03-09, Dec 03-10, and Dec 03-13.

Internal Control Over Financial Reporting

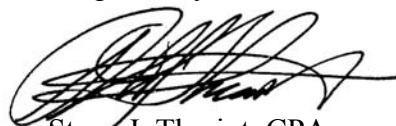
In planning and performing our audit, we considered the Town of Homer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the

internal control over financial reporting and its operation that we considered 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 Town of Homer's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Financial Statement Findings in Appendix B as items Dec 03-02 and Dec 03-04 through Dec 03-14.

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 primary government 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 over financial reporting that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described previously, we consider all items to be material weaknesses. We also noted certain insignificant matters involving the internal control over financial reporting, which we have reported in a separate letter to management (Appendix D), that are not required to be reported herein under *Government Auditing Standards*.

This report is intended for the information and use of the mayor, certain other elected officials of the Town of Homer, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

ESS:GLM:SBR:dl

HOMER04

Summary of Auditor's Results

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SUMMARY OF AUDITOR'S RESULTS
For the Nine Months Ended December 31, 2003

Financial Statements

Type of auditor's report issued:	<u>Qualified</u>	
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> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> X </u> yes	<u> </u> no

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Financial Statement Findings

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FINANCIAL STATEMENT FINDINGS
For the Nine Months Ended December 31, 2003

COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANTS

Dec 03-01 Failure to Comply With Louisiana Audit Law

The audit was not completed within six months of the close of the town's fiscal year as required by Louisiana law.¹

The Louisiana Legislative Auditor was directed to conduct a free audit for the town on March 31, 2004. However, financial records were not available to enable the Legislative Auditor to start the audit until July 19, 2004 (over six months after the close of the town's fiscal year).

In the future, every effort should be made to ensure that the financial records and information needed for a timely audit is available.

Dec 03-02 Noncompliance With Sales Tax Ordinances

The town's sales tax revenues are not deposited in a separate bank account as required and town records do not clearly account for the expenditure of sales tax monies collected.² Also, dedicated sales taxes are used for Utilities and Sanitation Fund operations in violation of the sales tax ordinances.³

Rather than depositing sales tax monies in a separate bank account as required, all sales tax monies collected are deposited in a "Master Bank" checking account that includes monies of the General Fund, Special Revenue Funds, and Utilities and Sanitation Fund. Although the town maintains a separate general ledger accounting for each of the funds, there is no clear accounting of the expenditure of the dedicated sales tax monies as they are commingled with other town funds.

Dedicated sales tax monies deposited in the "Master Bank" checking account are being spent/borrowed for Utilities and Sanitation Fund operations which is a clear violation of the 1985 sales tax ordinance. The Utilities and Sanitation Fund has maintained a significant negative cash

¹ R.S. 24:513 requires the town audit to be completed within six months of the close of the town's fiscal year.

² Town of Homer Ordinance Number 601, adopted on August 19, 1971, requires all sales tax revenues to be deposited in a separate bank account.

Louisiana Revised Statute (R.S.) 39:704 states, "The proceeds of any special tax shall constitute a trust fund to be used exclusively for the objects and purposes for which the tax was levied. The records of the taxing authority shall clearly reflect the objects and purposes for which the proceeds of the tax are used."

³ The town collects sales taxes which are primarily dedicated for specific purposes. Collections from the 1985 one percent sales tax are dedicated for streets, police, fire, and recreation. Also, a minimum of 20% of the collections from the 1971 one percent sales tax are dedicated for industrial development facilities.

balance in the “Master Bank” checking account over the past several years which is being “covered” by the positive cash balances maintained by the General and Special Revenue funds. However, the town does not maintain an accounting of the monies borrowed by the Utilities and Sanitation Fund from the General Fund and/or individual Special Revenue funds. At December 31, 2003, cash in the “Master Bank” checking account is comprised of the following:

General Fund	\$135,685
Special Revenue Funds:	
Industrial Development	340,922
Streets	103,314
Police	16,936
Fire	55,328
Recreation	24,285
Contingency	33,294
Utilities and Sanitation Fund	<u>(375,141)</u>
Total "Master Bank" Cash	<u><u>\$334,623</u></u>

The town should deposit all sales tax monies in a separate bank account as required by ordinance and clearly account for its expenditure in accordance with law. In addition, the town should cease spending dedicated sales tax monies on Utilities and Sanitation Fund operations. Also, the board should be directed to develop a formal plan for the Utilities and Sanitation Fund to begin repaying funds spent/borrowed from the General and/or Special Revenue Funds.

Dec 03-03 Noncompliance With Debt Agreements

The town failed to fully comply with the “Letter of Intent to Meet Conditions” agreements of its water and sewer revenue bonds (CFDA 10.760).⁴

At December 31, 2003, the town owes a total of \$2,665,924 for three bond issues used for making additions and improvements to the town’s water and sewer facilities and has not fully complied with the Farmers Home Administration (FmHA) agreement as follows:

1. Water and Sewer Rates Are Substantially Less Than Mandated, and A Separate Rate Structure Is Not Implemented for Residential and Commercial Customers

⁴ The U.S. Department of Agriculture - Farmers Home Administration (FmHA) “Letter of Intent to Meet Conditions” agreements provide specific guidelines that the town must comply with to provide assurances that the town is able to meet its debt payments. The agreements require the town, among other things, to establish specific minimum water and sewer rates for residential and commercial customers, and to maintain insurance on the water and sewer facilities/systems to protect the financial interest of the FmHA.

At December 31, 2003, the town's water and sewer rates were as follows:

Water Rates

- \$2.80 per 1,000 gallons or part thereof for in-town customers
- \$4.00 per 1,000 gallons or part thereof for out-of-town customers

Sewer Rates

- \$2.15 per 1,000 gallons or part thereof for in-town customers
- \$4.10 per 1,000 gallons or part thereof for out-of-town customers
- \$5.00 surcharge

The FmHA agreement requires the town to implement the following water and sewer rates:

Water - Residential Rates

- \$10.00 per month for the first 2,000 gallons
- \$1.50 per 1,000 gallons or part thereof of the next 3,000 gallons
- \$1.75 per 1,000 gallons or part thereof over 5,000 gallons

Water - Commercial Rates

- \$45.00 per month for the first 30,000 gallons
- \$1.00 per 1,000 gallons or part thereof of the next 20,000 gallons
- \$1.50 per 1,000 gallons or part thereof over 50,000 gallons

Sewer - Residential Rates

- \$11.00 per month for the first 2,000 gallons
- \$2.95 per 1,000 gallons or part thereof over 2,000 gallons

Sewer - Commercial Rates

- \$75.00 per month for the first 30,000 gallons
- \$2.50 per 1,000 gallons or part thereof over 30,000 gallons

2. No Insurance Coverage on Water and Sewer Facilities

The town does not carry insurance coverage on its water and sewer facilities/systems as required under the agreements. The town is required to maintain insurance in type and amount as necessary to protect the FmHA's financial interest and to maintain adequate coverage for the life of the loans.

The town should notify the United States Department of Agriculture - FmHA of its agreement violations and obtain guidance to resolve these matters. In addition, the town should notify the Louisiana Bond Commission of these agreement violations.

Dec 03-04 Donating Town Funds

The town may have violated Louisiana's constitution and state law by exceeding its powers in donating town funds for festivals and donating funds to nonprofit organizations without a valid cooperative endeavor agreement.⁵

The town donated town funds for the following festivals and donated funds to the following non-profit organizations that either did not meet the three required elements of a valid cooperative endeavor agreement or there was no cooperative endeavor agreement.

Festivals

The board of selectmen approved paying \$3,000 for the Claiborne Parish Jubilee and \$1,000 to the Juneteenth Celebration. During our audit period, the town paid \$850 for the Claiborne Parish Jubilee and \$1,000 for the Juneteenth Celebration. Louisiana Attorney General Opinion No. 02-0069 advises that public funds cannot be used for this purpose.

Nonprofit Organizations

Homer Chamber of Commerce

The town and the Homer Chamber of Commerce (chamber), a nonprofit corporation, have an agreement for the town to pay \$700 each month to the chamber for its support. Although there is a written agreement between the town and the chamber, we were unable to determine whether

⁵ Article VII, Section 14(A) of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporations.

Article VII, Section 14(C) provides that for a public purpose, the state and its political subdivisions or political corporations may engage in cooperative endeavors with each other, with the United States or its agencies, or with any public or private association, corporation or individual. However, to have a valid cooperative endeavor agreement, all three of the following elements must be met:

1. The expenditure or transfer of public funds or property must be based on a legal obligation or duty.
2. The expenditure must be for a public purpose.
3. The expenditure must create a public benefit proportionate to its cost.

the services provided by the chamber are equivalent in value with the amount paid to the chamber as the agreement for the services are very general.

In addition, the town is providing office space for the chamber (through the town's lease with the museum). The Louisiana Attorney General has opined (A.G. Opinion No. 99-363) that providing office space to the chamber is a donation of which is expressly prohibited by the Constitution.

Herbert S. Ford Memorial Museum

The town leases one of its buildings to the Herbert S. Ford Memorial Museum, a nonprofit corporation, for a 99-year term (ending June 4, 2080) for one dollar each year. The town pays the electricity bill for the museum and does not bill the museum for water, sewer, and garbage collection. The June 16, 2003, town payment to Entergy included \$375 paid for the museum for electricity used from April 9, 2003, to May 8, 2003. There is no cooperative endeavor agreement that specifies how the one dollar a year lease, payment of the museum's electricity bill, and not billing the museum for utilities is commensurate with the public benefit that the town receives.

Claiborne Council on Aging

The town pays the Claiborne Council on Aging \$100 each month for recreation for senior citizens. There is no cooperative endeavor agreement for this monthly payment.

The town should not donate public funds to nonprofit corporations or to festivals and other organizations unless a valid cooperative endeavor agreement exists that meets all three elements.

Dec 03-05 Need to Obtain Quotes for Large Purchases

The town did not obtain quotes for chemical purchases as required by Louisiana law.⁶ Chemicals totaling approximately \$18,000 were purchased from one vendor. Although the individual purchases did not exceed the bid limit amount, the total purchases exceeded the \$10,000 threshold for obtaining quotes.⁷

The town should comply with the competitive bidding requirements of the Louisiana public bid law and seek quotes when large items are purchased to ensure that the most favorable prices are obtained. We suggest that these quotes be documented as part of the approval process before the purchase is made.

⁶ R.S. 38:2212.1 requires competitive bids for all purchases of materials and supplies exceeding \$20,000. In addition, purchases between \$10,000 and \$20,000 should be made by obtaining at least three telephone or facsimile quotations.

⁷ Louisiana Attorney General Opinion No. 02-0122 provides that recurring purchases that in the aggregate exceed the bid limit must be let for public bid.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Dec 03-06 Financial Statements Not Prepared Timely

Financial statements were not prepared resulting in management failing to adequately use the town's budget to effectively exercise its fiduciary responsibilities of managing the town's fiscal operations. Also, the town violated its charter in not preparing monthly financial statements.⁸ Management has a fiduciary responsibility to monitor current financial information compared to the budgeted amounts to properly manage the town's fiscal operations.

As of September 10, 2004 (last day of our field work), the latest financial statements prepared were for the nine months ending March 31, 2003. Without timely financial statements with budget comparisons, the mayor and board of the town cannot effectively exercise their responsibilities of managing the town's fiscal operations.

The town should ensure that the treasurer presents, each month, accurate and timely financial statements to the mayor and board that report the operations of the town compared to the budgeted amounts. Also, we suggest that the board's review of the town's financial statements and budget be reflected as an item on the monthly meeting agenda and that the discussions are documented in the board minutes.

Dec 03-07 Bank Statements Should Be Reconciled Timely

Bank statements and related deposits and canceled checks are not reconciled timely to the book balances.⁹ Reconciling the bank balances with the book balances is necessary to ensure that (1) all receipts and disbursements are recorded by the town (an essential process in ensuring complete and accurate monthly financial statements); (2) checks are clearing the bank in a reasonable time; (3) reconciling items (errors, unrecorded deposits and checks, etc.) are appropriate and are being recorded; and (4) the reconciled cash balance agrees to the general ledger cash balance.

On the date of our initial visit (August 4, 2004), the town's bank accounts were reconciled through January 2004. February, March, April, May, and June 2004 bank statements were not reconciled. Without reconciling the bank accounts timely, the town cannot be assured that all receipts and disbursements have been recorded which is important in preparing timely and accurate monthly financial statements. Also, the town may be unable to recover from the bank any monies resulting from any unauthorized signatures or alterations on checks.

⁸ Section 10 of the town's charter requires the treasurer to keep an account of all receipts and disbursements and to make monthly reports of the condition of the treasury.

⁹ R.S. 10:4-406(d)(2) allows the town 30 days to examine bank statements and canceled checks for unauthorized signatures or alterations. After 30 days, the town is precluded from asserting a claim against the bank for unauthorized signatures or alterations.

The town should implement procedures requiring timely preparation and supervisory review and approval of all bank reconciliations.

**Dec 03-08 Need to Improve Controls Over
Receivables and Customer Meter Deposits**

The town needs to improve controls over Utilities and Sanitation Fund (water, sewer, and garbage) receivables and customer meter deposits.

Our review revealed the following:

- There are no detailed written procedures for accounting for and processing receipts, billings, and customer meter deposits of the Utilities and Sanitation Fund.
- The Utilities and Sanitation Fund accounts receivable balance in the general ledger is not reconciled monthly with the detailed accounts receivable customer listing. In addition, the town could not locate the December 2003 detailed accounts receivable customer listing nor could it reproduce this report (see finding, No Contingency and Recovery Plan and Computer Backup Tape Is Not Stored Offsite). Because of the inadequate accounting records, we were unable to determine the accounts receivable balance and related allowance for uncollectible accounts at December 31, 2003.
- The meter deposit bank account balances are not reconciled monthly with the detailed listing of customers' meter deposits. At December 31, 2003, the cash balances in the meter deposit bank accounts total \$119,161, and the detailed listing total \$94,483, a difference of \$24,678.
- The town is not reconciling the units of water produced with the units of water billed to customers. Reconciling production with units consumed (billed) would provide information relating to significant leaks in the water lines, inaccurate meters or meter readings, and unauthorized or non-metered water usage.
- The Utilities and Sanitation Fund clerk performs a variety of duties relating to fund receivables and customer meter deposits that are incompatible for a proper system of checks and balances. This employee enters meter readings into the computer system, prepares the customers' bills, collects payments and customer meter deposits, posts the payments in the system, makes customer billing adjustments, and prepares the bank deposit.
- More than one employee is using the same cash drawer to collect payments.

The town should (1) prepare detailed written procedures for accounting for and processing Utilities and Sanitation Fund receipts, billings, and customer meter deposits; (2) reconcile the accounts receivable balances in the general ledger with the detailed accounts receivable customer

listing on a monthly basis; (3) reconcile the customer meter deposit detailed listing to the related general ledger bank account balances and customer deposit liability on a monthly basis; (4) reconcile units of water produced with units consumed periodically and investigate differences in excess of expected water leakage; (5) separate the cash collection duties of the Utilities and Sanitation Fund clerk from the posting of payments and preparing the bank deposit; (6) require the mayor or town clerk to approve all billing adjustments before they are made; and (7) require that each employee that collects payments to have his/her own cash drawer.

**Dec 03-09 Insufficient Effort to Collect
Delinquent Utility Accounts**

The town is not following its policy for collecting delinquent utility (Utilities and Sanitation Fund) accounts. The town's cut-off policy provides that if customers do not pay their bills on or before the fifteenth day of the month, the town may immediately discontinue the services. Continuing to provide services after the cut-off date and not actively trying to collect delinquent utility account balances is prohibited by Louisiana's constitution (Article VII, Section 14(A) of the Louisiana Constitution of 1974). In addition, the continued operation and quality of service provided to customers depends on the town collecting for the services it provides.

Our review of customers with balances over \$50 at January 31, 2004, revealed that 22 of these customers have balances totaling \$12,069 that are over 90 days past due and they are still receiving services. A total of 28 of these customers have balances totaling \$1,315 that are from 60 to 90 days past due and they are still receiving services. Therefore, the town was not following its cut-off policy and was not actively trying to collect the delinquent utility account balances. In addition, we were informed that board members grant extensions to customers in their respective districts.

In our prior audit, we reported that the town determined that customer accounts totaling \$257,533 were uncollectible. These accounts were subsequently written-off without formal board action. Also, the town has no formal contract with a collection agency to try to collect these delinquent utility account balances.

The town should:

- Enforce its cut-off policies and procedures to ensure that all delinquent accounts are collected on a timely basis or that service is discontinued
- Take aggressive action to collect delinquent amounts, including legal action when necessary, and use a collection agency
- Prohibit board members from granting extensions to customers
- Require board approval before accounts are written-off and turn these accounts over to a collection agency for collection

Dec 03-10 Fixed Asset Records Should Be Complete

Detailed general fixed asset records for equipment are not current, the equipment is not tagged, and physical inventories of these assets are not conducted annually.¹⁰ Good internal controls over fixed assets require that (1) detailed fixed asset records be current; (2) every asset includes a tag identifying it with a number that can be cross-referenced to the detailed fixed asset records; and (3) a physical inventory be conducted at least on an annual basis.

The town's listing of general fixed assets for equipment is not current or complete. Equipment reported in the general fixed assets account group totaled \$1,322,233 at December 31, 2003. Our tests of these assets revealed the following:

- A physical inventory was not conducted during our audit period and the last time a physical inventory was conducted may have been several years ago.
- Equipment items are not tagged identifying it with a number that can be cross-referenced to the detailed listing.
- The description of many equipment items is not adequate to properly identify the assets. For example, the description for one item for the street department describes the equipment as "unidentified" with a value reported as \$41,190. Other items list the type of equipment, such as, "dump truck" or "chainsaw," without describing the make, model, serial number, et cetera.
- Seventeen items of street department equipment, totaling \$73,103, included on the listing could not be located or does not exist. This represents 34% of the 49 items included on the listing for the street department and 17% of the \$440,390 value.
- Twenty-seven items of police department equipment, totaling \$132,589, included on the listing could not be located or does not exist. This represents 53% of the 51 items for the police department and 58% of the \$228,108 value.
- A 2000 Crown Victoria police car (estimated cost \$21,000) and a 1991 International fire truck (estimated cost of \$100,000) were not included on the listing.

The town should (1) define assets that will be inventoried, including the minimum value for inclusion on the list of fixed assets; (2) prepare a detailed list of fixed assets (the list should include the date of purchase and the initial cost and an accurate description of the item); (3) take a physical inventory at least annually and follow up on items not found during the physical inventory; and (4) identify [tag] assets that belong to the town and include the tag number on the listing of fixed assets.

¹⁰ R.S. 24:515(B)(1) requires the town to maintain records of all land, buildings, improvements other than buildings, equipment, and any other general fixed assets, which were purchased or otherwise acquired. The records should include information as to the date of purchase of such property or equipment and the initial cost.

Dec 03-11 Need to Improve Controls Over Disbursements

The town needs to improve controls over disbursements. We reviewed 72 disbursements totaling \$97,337 made during the period from April 1, 2003, through December 31, 2003. Our review of these 72 disbursements, including our general observations and inquiries, revealed the following:

1. The purchasing policy, including using purchase orders when applicable, is not always followed. In addition, approval is not always indicated on the supporting documentation (e.g., vendor invoice) before payment is made.
2. There are no written policies and procedures relating to payroll processing and time/attendance records. In addition, supervisors' attendance records are not always approved.
3. The same employee performs a variety of duties relating to cash disbursements that are incompatible for a proper system of checks and balances.
 - The accounts payable clerk receives the invoices, codes the invoices, enters the invoices into the accounting system, prepares and prints the checks, posts the payments to the accounting system, and mails the payments.
 - The treasurer inputs the payroll rates into the accounting system, enters the time and attendance records into the accounting system, prepares the payroll journal and payroll checks, prints the payroll checks, distributes the payroll checks, and reconciles the bank account.
4. There is no computer-generated report that shows all changes made to payroll for a specific period of time.
5. The supporting invoice or other supporting documentation for four disbursements totaling \$1,055 could not be found.
6. Employees are given the option of being paid at one and one half times their base rate of pay or earning compensatory time at one and one half times the overtime hours worked. The town's policies do not address compensatory time, but do provide that hourly employees shall receive overtime pay at one and one half times their base rate.
7. The town's personnel policy allows salaried employees to be paid overtime at a rate of one-third their base rate for each hour worked over forty hours in a workweek. However, salaried employees are paid one and one half times their base rate of pay for each hour worked over forty hours.

The town should:

- Comply with the purchasing policy and require that approval is documented on all vendor invoices before payment is made
- Develop written policies and procedures relating to payroll processing and time/attendance records, including approval of supervisors' attendance records
- Require the town clerk to review all accounts payable disbursements before the checks are signed to ensure that funds are budgeted and available, payments are coded properly, documentation is complete (invoice, purchase order, receiving report, valid business purpose, etc.), and invoices are approved and after the checks are signed, they should be mailed by someone independent of disbursement responsibilities
- Require the town clerk to compare the payroll journal to the attendance records to make sure the hours were imputed properly, the rate of pay and amount earned is reasonable, and all attendance records are approved in accordance with town policy
- Require the town clerk or someone independent of the payroll function to review all changes made to payroll at least on a monthly basis (a computer-generated report should be generated that will show all changes that were made to payroll for a specific period of time)
- Restrict access to the accounts payable paid files to only designated employees
- Address the town's practice of allowing the earning of compensatory time at one and one half times the overtime hours worked
- Comply with the town's personnel policy for paying overtime to salaried employees

Dec 03-12 Gasoline/Diesel Charge Cards

Controls need to be improved over charge cards used by town employees for purchasing gasoline/diesel. Good controls require that the detailed vendor invoice be reviewed monthly to ensure that only town vehicles and equipment are receiving fuel, odometer readings are accurately recorded, and the amount of fuel used is reasonable.

Certain town employees are assigned Advantage gas cards and are given a pin number (password) to enable them to get gasoline/diesel for their town vehicle/equipment. Advantage provides a detailed monthly report by vehicle of the fuel dispensed. Our review of the September 2003 Advantage bill, totaling \$2,742, revealed the following:

- The driver does not always record the odometer readings when fueling, resulting in zero miles per gallon data.
- The bill is not being reviewed to ensure that the dates of use are reasonable, drivers are entering accurate odometer readings, miles per gallon data are reasonable for the vehicle, and the quantity used is reasonable for the work done for that period.

Management of town should, at a minimum:

- Require that the driver enter the correct odometer reading when fueling his/her vehicle
- Review the Advantage (Fuelman commencing June 2004) statements monthly to ensure that the number of gallons received, miles traveled, and miles per gallon are reasonable

**Dec 03-13 Need to Improve Controls Over
Traffic Tickets and Town Summonses**

Management of the police department is not adequately accounting for traffic tickets and town summonses, and traffic citations are not reported to the Louisiana Department of Public Safety as required by law.¹¹ Good controls require that records are maintained that account for the numerical sequence and final disposition of all issued citations.

Our review of the police department's traffic tickets and town summonses revealed the following:

- The computerized traffic/summonses' system does not allow for the accounting of the numerical sequence of tickets/summonses issued. Without accounting for the numerical sequence of tickets, there is no way to determine whether citations were issued or tickets were lost or voided.
- Fines collected by the police department are not deposited timely. Deposits are made one to two times a month.
- There is a lack of segregation of duties as the police department secretary/dispatcher is the sole employee involved in imputing the citations in the computerized traffic/summonses' system, updating the system for fines paid and other actions taken, receiving fines, and preparing the bank deposit.
- All officers have access to the computerized traffic/summonses' system when the secretary/dispatcher is not present as there are no security/passwords to get into the system.

¹¹ R.S. 32:393(C) requires that the town keep a full report of every case in which a person is charged with a traffic violation and send the report to the Louisiana Department of Public Safety (DPS).

- Traffic tickets are not reported to DPS. Failure to report these violations to DPS results in inaccuracies in the offenders' driving records and is in violation of state law. The police department secretary informed us that the only report filed with DPS is to request a suspension of drivers' licenses when fines are not paid.

Management of the town should:

1. Account for the numerical sequence of all citations issued and the final disposition of those citations monthly
2. Require that fines collected be deposited daily
3. Separate the functions of record keeping for citations and collecting fines and preparing deposits
4. Limit access to the computerized traffic/summonses' system to only authorized individuals by using appropriate security measures
5. Comply with state law and report all appropriate traffic violations to DPS

**Dec 03-14 No Contingency and Recovery Plan and
Computer Backup Tape Is Not Stored Offsite**

In our prior audit report issued October 22, 2003, we reported that there was no written contingency and recovery plan in the event of a disaster. In addition, we reported that the computer backup tape containing the town's financial records was not stored offsite.

We also informed management of the importance of such controls to enable them to recover and continue operations in the event of a disaster. In April 2004, there was a total computer failure and the December 2003 detailed accounts receivable customer listing could not be reproduced.

The town should develop a written contingency and recovery plan and test it periodically to ensure that it works as planned. In addition, the treasurer should store the computer system backup tape offsite.

Schedule of Prior Audit Findings

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SCHEDULE OF PRIOR AUDIT FINDINGS
For the Nine Months Ended March 31, 2003

There were eighteen findings related to the financial statements for the nine months ended March 31, 2003, as follows:

Finding No.	Prior Audit Finding	Status
2003-01	The town's sales tax revenues are not deposited in a separate bank account as required and town records do not clearly account for the expenditure of sales tax monies collected. Also, dedicated sales taxes are used for Utilities and Sanitation Fund operations in violation of the sales tax ordinances.	Unresolved. See Finding Dec 03-02.
2003-02	The town failed to comply with Louisiana law in selling town property to a private individual.	Resolved.
2003-03	The town may have violated Louisiana's constitution and state law by exceeding its powers in donating town funds to nonprofit organizations and making payments for others without a valid cooperative endeavor agreement.	Unresolved. See Finding Dec 03-04.
2003-04	The town may have violated the public bid law by not obtaining bids for gasoline/diesel and chemical purchases.	Partially resolved. See Finding Dec 03-05.
2003-05	Financial statements were not prepared timely resulting in management failing to adequately use the town's budget to effectively exercise its fiduciary responsibilities of managing the town's fiscal operations. Also, the town violated its charter in not preparing monthly financial statements and violated the Local Government Budget Act because the adopted budget did not include a budget message and a budget adoption instrument.	Unresolved. See Finding Dec 03-06 and Management Letter comments.
2003-06	Bank statements and related deposits and canceled checks are not reconciled timely to the book balances.	Unresolved. See Finding Dec 03-07.
2003-07	The town needs to improve controls over receivables and customer meter deposits.	Unresolved. See Finding Dec 03-08.
2003-08	The town is not following its policy for collecting delinquent utility accounts.	Unresolved. See Finding Dec 03-09.
2003-09	Detailed general fixed assets records for equipment are not current, the equipment is not tagged, and physical inventories of these assets are not conducted annually.	Unresolved. See Finding Dec 03-10.
2003-10	The town's written policies and procedures are not complete.	Partially resolved. See Management Letter comments.
2003-11	The town needs to improve controls over disbursements.	Unresolved. See Finding Dec 03-11.

Finding No.	Prior Audit Finding	Status
2003-12	The town is not exercising adequate control over charge cards used by town employees for purchasing gasoline/diesel.	Unresolved. See Finding Dec 03-12.
2003-13	Management of the police department is not adequately safeguarding and accounting for traffic tickets and town summonses, and traffic citations are not reported to the Louisiana Department of Public Safety as required by law. In addition, traffic citations were dismissed and/or reduced to a lesser charge without proper documentation as to who authorized this action.	Partially resolved. See Finding Dec 03-13 and Management Letter comments.
2003-14	The town's police department does not have adequate controls over confiscated weapons and drugs.	Resolved.
2003-15	The town failed to report the Special Events Fund in its financial statements. Also, the town failed to maintain complete financial records for this fund.	Resolved.
2003-16	There is no written contingency and recovery plan in the event of a disaster. In addition, the computer backup tape containing the town's financial records is not stored offsite.	Unresolved. See Finding Dec 03-14.
2003-17	Building permits and inspection certificates are not controlled, resulting in at least \$2,753 of fees not deposited in the town's bank account. Permit and inspection records were not maintained in accordance with state law. In addition, certain fees charged for permits and inspections were not approved by the board.	Resolved.
2003-18	The town failed to fully comply with the "Letter of Intent to Meet Conditions" agreements of its water and sewer revenue bonds (CFDA 10.760). The town (1) charges water and sewer rates that are substantially less than the minimum rates mandated; (2) has not established a separate water and sewer rate structure for its residential and commercial customers as required; and (3) did not maintain insurance coverage on its water and sewer facilities.	Unresolved. See Finding Dec 03-03.

There were six management letter comments for the year ended March 31, 2003, as follows:

Prior Audit Management Letter Comment	Status
1. The town needs to improve controls over cash receipts.	Partially resolved. See Management Letter comments.
2. The town should (1) amend the management agreement with the Homer Golf Club for the change in providing a town employee for the maintenance of the premises to paying \$15,000 each year to the Homer Golf Club; (2) obtain annual financial statements of the Homer Golf Club and review the statements to determine if its management agreement is appropriate and whether the \$15,000 fee is reasonable; and (3) require the Homer Golf Club to provide proof of adequate insurance to the town annually.	Unresolved. See Management Letter comments.
3. The lease agreement between the town and Herbert S. Ford Memorial Museum should include a provision that the museum maintain adequate general liability insurance and provide proof of this insurance coverage to the town annually.	Unresolved. See Management Letter comments.
4. Personnel folders should be maintained on all town employees, including part-time employees and volunteer firemen, in a central location.	Unresolved. See Management Letter comments.
5. The meter reader should be strictly prohibited from reading his own meter.	Resolved.
6. There is no formal plan for the town to promote or market the town's airport terminal space.	Unresolved. See Management Letter comments.

Management Letter

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STEVE J. THERIOT, CPA
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September 10, 2004

**HONORABLE HUEY DEAN, MAYOR,
AND MEMBERS OF THE BOARD OF SELECTMEN
TOWN OF HOMER**
Homer, Louisiana

We have audited the primary government financial statements of the Town of Homer (town), as of and for the nine months ended December 31, 2003, and have issued our report thereon dated September 10, 2004. As a part of the audit, we noted certain matters that we want to bring to the attention of management for its consideration. We offer the following comments and suggestions for the town's consideration:

1. In July 2004, the board approved salary increases for all police employees, a public works employee, and an administrative employee. The board approved the salary increases without an analysis of the cost of the proposed salary increases, an analysis of where the funding would come from, or whether future funding would be adequate to cover the increases. In the future, the board should not approve spending increases without having current and projected financial information available to make an informed decision.
2. The town does not have a formal record retention policy for preserving public records as required by R.S. 44:36. In addition, the central filing system for accounting records and documents needs improvement.
3. There are no written policies and procedures for (1) preparing, monitoring, and amending the budget; (2) accounting and processing of receipts and disbursements, (3) billing and collecting occupational license fees; (4) accounting for the business and personal use of cellular telephones; and (5) investing excess cash, including procedures for ensuring that bank balances and investments are adequately secured. Formal/written policies and procedures are necessary as a clear understanding of what should be done, how, who, and when it should be done, and that the procedures followed meet management's expectations. Also, written procedures aid in continuity of operation and for cross-training of staff.
4. Administrative department employees should (1) receive training to enable them to complete the work that the contract accountant performs; (2) receive additional training on the new software; (3) prepare formal job descriptions for their

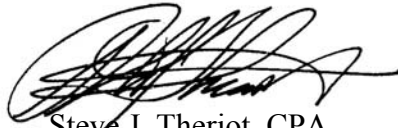
positions; and (4) be cross-trained so they can perform any particular duty of the administrative department.

5. Cash Receipts:
 - a. To improve controls over cash receipts, we suggest that the town use a cash register for receiving payments from customers at town hall.
 - b. Deposits should be made daily.
 - c. Tickets or some type of counting device should be used to provide controls over the collection of swimming pool fees. The number of swimmers should be reconciled with the amount of fees collected.
6. Our review of utility accounts receivable for town officials and employees as of September 1, 2004, revealed that accounts receivable balances for four employees (totaling \$129) were 30 days or more past due.
7. Police Department:
 - a. One traffic ticket we reviewed was dismissed and had the initials of the city court magistrate dismissing the ticket, but there was no record of the ticket being dismissed in the court minutes. In the future, require that when citations are dismissed or reduced, that this be done only when city court is in session where the process is documented in the court minutes and the town magistrate authorizes the action.
 - b. The police department petty cash reimbursement we reviewed (\$203.20) lacked adequate documentation for the purpose of the payment and lacked approval.
8. Volunteer firemen are paid once a year based on the number of call outs for the year. The document is prepared by the fire department for the year and submitted to the town for payment (\$34,046 paid for 2003). The document does not include the number of call outs, the rate of pay for each call out, nor is it certified by the fire chief. We suggest that payments be made quarterly with documentation of the number of call outs for each volunteer fireman that is certified by the fire chief.
9. Personnel folders should be maintained on all town employees in a central location. We found that the town did not maintain personnel folders for all part-time employees and volunteer firemen.
10. The mayor should review and approve time reports for all department heads.

11. The budget for fiscal year July 1, 2003, to June 30, 2004, did not include a budget message and budget adoption instrument. R.S. 39:1305 requires the mayor to prepare and sign a budget message that includes, among other items, a summary description of the proposed financial plan. Also required is a budget adoption instrument that specifies the mayor's authority to make changes within various budget classifications without approval of the board of selectmen (board), as well as those powers reserved solely to the board.
12. The board did not formally select a newspaper in Claiborne Parish as its official journal as required by state law. R.S. 43:141 requires the board to select a newspaper located in Claiborne Parish as its official journal at its first meeting in June of each year. Taking bids for the selection of an official journal is not mandatory.
13. Homer Golf Club - Management Agreement:
 - a. The management agreement with the Homer Golf Club should be amended for the change from providing a town employee for the maintenance of the premises to paying \$15,000 each year to the Homer Golf Club, as adopted by the town in its regular meeting on June 7, 1993.
 - b. The town should obtain annual financial statements as required in the management agreement. The most recent statements provided to the town are for 1999. Also, the town should review the Homer Golf Club statements each year to determine if its management agreement is appropriate and whether the \$15,000 fee is reasonable.
 - c. There is no provision in the management agreement that requires the Homer Golf Club to maintain adequate insurance, including general liability insurance. The Homer Golf Club should provide proof of this insurance to the town annually.
14. The lease agreement between the town and Herbert S. Ford Memorial Museum should include a provision that the museum maintain adequate general liability insurance and provide proof of this insurance coverage to the town annually.
15. The Utility Fund fixed asset listing includes assets that are fully depreciated and no longer in use. For example, an NCR computer and software totaling \$47,371 acquired in 1985 is included on the fixed asset listing. An inventory of Utility Fund fixed assets should be done and all fully depreciated assets that are no longer in use should be removed from the fixed asset listing.
16. There is no formal plan for the town to promote or market the town's airport terminal space.

This letter is intended for the information and use of the management of the Town of Homer and is not intended to be, and should not be, used by anyone other than management. Under Louisiana Revised Statute 24:513, this letter is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

ESS:GLM:THC:dl

HOMER04

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations

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Town of Homer
400 East Main St.
Homer, LA 71040

October 15, 2004

Mr. Steve J. Theriot
P.O. Box 94397
Baton Rouge, La 70804-9397

RE: Amended Responses

Dear Mr. Theriot:

We have received the preliminary draft of the auditor's findings and suggestions and we issue the following responses and plans of actions.

DEC 03-01

The Town of Homer greatly appreciates the Legislative Auditor's Office for issuing a free audit for the year 2003. In April of 2004, the Town of Homer experienced a complete financial data loss due to a computer crash. At that time the Town of Homer was under extreme duress because the position of the Town Clerk had been vacant for two months. Therefore, due to the workload the business office had to absorb, the financial statements were not completed. To date, the business office of the Town of Homer is working diligently with the town C.P.A., Carlos Martin, to correct this problem. In the future, every effort will be made to assure that the financial records are up to date and that the annual audit report is prepared in a timely manner.

DEC 03-02 (2003-01)

The Town of Homer has set-up the separate bank account for this fund. The Town of Homer will work with C.P.A., Carlos Martin, to ensure that all future collections are deposited in this account.

DEC 03-03 (2003-18)

The Town of Homer feels that with the fees that the Town has added to water and sewer customers that the revenue generated should satisfy the debt.

DEC 03-04 (2003-03)Chamber of Commerce

The Town of Homer will amend the agreement between the Chamber of Commerce and the Town of Homer to read: Chamber shall assist organizations and promotions within the Town of Homer financially with the funds received from the Town of Homer.

Herbert S. Ford Memorial Museum

The Town of Homer and the Museum Board will meet regarding the cooperative endeavor agreement and make any necessary changes thereto. Also, the Town of Homer will request a copy of any and all insurance policies annually.

Claiborne Council On Aging

The Town of Homer will meet with the Claiborne Council on Aging to prepare a cooperative endeavor agreement that meets the three (3) required elements.

DEC 03-05 (2003-04)

The Town of Homer will implement a purchasing procedure that will ensure that the Town of Homer will take bids on the purchasing of chemicals.

DEC 03-06, DEC 03-07 (2003-05, 2003-06)

These findings are a direct result of a computer failure and total loss of all financial data concerning the Town of Homer. The Town of Homer is working diligently to correct this matter.

DEC 03-08 (2003-07)

The Town Clerk, Town Treasurer, and Water Clerk, will work together to prepare a detailed policy and procedure manual for processing receipts, billing, and customer meter deposits. Also, a Recovery and Contingency will be implemented. The Town Treasurer and Water Clerk will work together to reconcile the monthly detailed listing of the meter deposits account with the detailed listing of the customer meter deposits. The Town of Homer will purchase a cash register as advised by the management letter. Also, it will be the duty of the Mayor and Town Clerk to approve any and all billing adjustments.

DEC 03-09 (2003-08)

The Town of Homer shall prohibit board members from granting extensions to water customers. As per the water policy, extensions will only be granted in emergency situations by the Mayor. The Town of Homer will enforce the cut-off policies and procedures and actively collect delinquent utility balances.

DEC 03-10 (2003-09)

The Mayor and Town Clerk will work with all supervisors to update and maintain a proper listing of any and all fixed assets.

DEC 03-11

1. The Town of Homer will implement the policy for purchasing, and require that all department heads sign off on all receipts accompanied by purchase order invoices.
2. The Town Clerk and Town Treasurer will work together to prepare a mandated policy of all payroll procedures and transactions.
3. The Town of Homer has implemented the following procedure:
 - Mail and distribution: Town Clerk
 - Coding of all bills: Town Clerk
 - Entering and posting of all invoices into system: Town Treasurer
 - Preparing and printing of checks: A.P. Clerk
 - Getting signatures and Mailing: A.P. Clerk
4. The Town of Homer will consult with the software company about the possibilities of upgrading the software to comply with this finding.
5. The Town of Homer will implement a more accurate filing system that will enable town records to be readily accessible.
6. The Town of Homer will take this finding before the Council and Finance Committee to change and update the personnel policy.
7. Refer to number 6.

DEC 03-12 (2003-12)

The Town of Homer will implement better controls over the Town of Homer charge cards for the purchase of gasoline and diesel. The supervisors for the Town of Homer will make certain that all employees enter odometer readings when fueling and all bills will be reviewed.

DEC 03-13 (2003-13)

The Town of Homer will look into purchasing a new computer system that will enable the Police Department to comply with this finding.

The Police Department will write a policy that applies to the depositing of the revenue that they collect from fines and other miscellaneous revenue

The Town of Homer Police Department has only one civilian in their employce. That employce' office hours are a standard eight to five. It is unreasonable for the Town of Homer to hire another employce to designate these duties. However, the Police Department will work with the Business Office to remedy these issues.

The Town of Homer Police Department docs not have a twenty-four (24) hour dispatcher. Therefore, all employces need access to this computer.

The Police Department has been in contact with the State of Louisiana and are working to correct this issue.

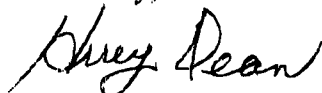
DEC 03-14 (2003-16)

The Town of Homer will implement policies and procedures that follow the basic office routine. The Town of Homer is making daily deposits and sending back-up files to the bank with these deposits.

The Town of Homer will also take the comments and suggestions from the management letter under advisement and try to incorporate these when possible.

We hope that these responses are appropriate and will satisfy your requirements until we can address these matters publicly. Should you need any additional information, please do not hesitate to contact us.

Sincerely,



Huey Dean
Mayor

HD/bw