

TOWN OF SORRENTO, LOUISIANA

FINANCIAL REPORT

June 30, 2003

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

Release Date 11-19-03

TOWN OF SORRENTO, LOUISIANA

TABLE OF CONTENTS

June 30, 2003

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITORS' REPORT		1
GENERAL PURPOSE FINANCIAL STATEMENTS		
Combined Balance Sheet – All Fund Types and Account Group	A	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	A-1	4
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type – Enterprise Fund	A-2	5
Statement of Cash Flows – Proprietary Fund Type – Enterprise fund	A-3	6
Notes to Financial Statements	A-4	7
SPECIAL INDEPENDENT AUDITORS' REPORTS		
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		18
Schedule of Findings and Questioned Costs		20
Summary of Prior Year Findings and Questioned Costs		23
STATISTICAL INFORMATION	<u>Schedule</u>	
Total Assets	S-1	
Cash and Investments	S-2	
Liabilities and Fund Equity	S-3	
Fund Equity	S-4	
Taxable Assessed Value of Property, Property Taxes - Assessed	S-5	

TABLE OF CONTENTS (Continued)

STATISTICAL INFORMATION (Continued)

General Fund Revenues, General Fund Expenditures	S-6
Utility Fund Revenues, Utility Fund Expenses	S-7
Utility Fund Revenues & Expenses	S-8



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the Board of Aldermen,
Town of Sorrento, Louisiana

We have audited the accompanying general-purpose financial statements of the **TOWN OF SORRENTO, LOUISIANA**, as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the **TOWN OF SORRENTO's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the **TOWN OF SORRENTO, LOUISIANA**, as of June 30, 2003, and the results of its operations and the cash flows from its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2003, on our consideration of the **TOWN OF SORRENTO, LOUISIANA's** internal control over financial reporting and our tests of its compliance with certain provision 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The financial statements for the year ended June 30, 2002, and statistical information, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the **TOWN OF**

SORRENTO, LOUISIANA. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements for the year ended June 30, 2003 and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Fouelle & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
September 18, 2003

**TOWN OF SORRENTO, LOUISIANA
ALL FUND TYPES AND ACCOUNT GROUP**

COMBINED BALANCE SHEET

June 30, 2003

	<u>Governmental</u>	<u>Proprietary</u>	<u>Account</u>	<u>Totals</u>	
	<u>Fund Type</u>	<u>Fund Type</u>	<u>Group</u>	<u>(Memorandum Only)</u>	
	<u>General</u>	<u>Enterprise</u>	<u>General Fixed Assets</u>	<u>2003</u>	<u>2002</u>
ASSETS					
Cash and cash equivalents	\$ 51,128	\$ 100,567	\$ -	\$ 151,695	\$ 121,631
Investments, at cost	116,678	361,296	-	477,974	594,266
Accounts receivable, net	15,682	6,835	-	22,517	20,036
Due from other governmental units	24,461	-	-	24,461	24,396
Restricted cash	193,868	-	-	193,868	182,631
General fixed assets	-	-	509,594	509,594	506,886
Fixed assets, net	-	616,125	-	616,125	638,278
Total assets	\$ 401,817	\$ 1,084,823	\$ 509,594	\$ 1,996,234	\$ 2,088,124
LIABILITIES					
Accounts payable and accrued liabilities	\$ 35,127	\$ 6,664	\$ -	\$ 41,791	\$ 27,202
FUND EQUITY					
Contributed capital	-	611,885	-	611,885	632,826
Investment in general fixed assets	-	-	509,594	509,594	506,886
Retained earnings	-	466,274	-	466,274	459,046
Fund balance:					
Reserved	192,718	-	-	192,718	182,631
Designated	-	-	-	-	36,500
Unreserved	173,972	-	-	173,972	243,033
Total fund equity	366,690	1,078,159	509,594	1,954,443	2,060,922
Total liabilities and fund equity	\$ 401,817	\$ 1,084,823	\$ 509,594	\$ 1,996,234	\$ 2,088,124

Notes on Exhibit A-4 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended June 30, 2003
(With comparative actual totals for 2002)

	<u>2003</u>		Variance - favorable (unfavorable)	<u>2002</u> Actual
	<u>Budget</u>	<u>Actual</u>		
REVENUES				
Taxes	\$ 385,000	\$ 413,976	\$ 28,976	\$ 376,947
Licenses and permits	70,000	61,653	(8,347)	59,796
Fines	110,000	96,259	(13,741)	149,860
Miscellaneous	43,000	50,387	7,387	88,796
Total revenues	<u>608,000</u>	<u>622,275</u>	<u>14,275</u>	<u>675,398</u>
EXPENDITURES				
Current				
General government	277,000	254,662	22,338	240,591
Public safety	235,000	261,348	(26,348)	342,916
Highways and streets	102,000	124,600	(22,600)	130,498
Capital outlay	78,000	77,139	861	51,898
Total expenditures	<u>692,000</u>	<u>717,749</u>	<u>(25,749)</u>	<u>765,903</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (84,000)</u>	<u>(95,474)</u>	<u>\$ (11,474)</u>	<u>(90,504)</u>
FUND BALANCE				
Beginning of year		<u>462,164</u>		<u>552,668</u>
End of year		<u>\$ 366,690</u>		<u>\$ 462,164</u>

Notes on Exhibit A-4 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS**

For the year ended June 30, 2003
(With comparative totals for 2002)

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Charges for services:		
Garbage	\$ 56,954	\$ 55,001
Sewer	<u>16,065</u>	<u>15,569</u>
 Total operating revenues	 <u>73,019</u>	 <u>70,570</u>
 OPERATING EXPENSES		
Depreciation	22,153	21,547
Garbage	56,518	58,837
Sewer	12,740	16,700
Bad debts	<u>900</u>	<u>4,100</u>
 Total operating expenses	 <u>92,311</u>	 <u>101,184</u>
 Operating loss	 (19,292)	 (30,614)
 NON-OPERATING		
Interest income	<u>5,579</u>	<u>9,402</u>
 Loss before depreciation transfer	 (13,713)	 (21,211)
 Depreciation transferred to contributed capital	 <u>20,941</u>	 <u>20,941</u>
 Net increase (decrease) in retained earnings	 7,228	 (270)
 RETAINED EARNINGS		
Beginning of year	<u>459,046</u>	<u>459,316</u>
 End of year	 <u>\$ 466,274</u>	 <u>\$ 459,046</u>

Notes on Exhibit A-4 are an integral part of this statement

**TOWN OF SORRENTO, LOUISIANA
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

STATEMENT OF CASH FLOWS

For the year ended June 30, 2003
(With comparative totals for 2002)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$, (19,292)	\$ (30,614)
Adjustments to operating loss:		
Depreciation	22,153	21,547
Allowance for doubtful accounts	900	(4,100)
Change in operating assets and liabilities:		
Accounts receivable	(1,110)	10,642
Accounts payable and accrued expenses	<u>2,159</u>	<u>4,056</u>
Net cash provided by operating activities	<u>4,810</u>	<u>1,531</u>
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of capital assets	<u>-</u>	<u>(6,057)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,247)	(8,966)
Interest income	<u>5,579</u>	<u>9,402</u>
Net cash provided by investing activities	<u>332</u>	<u>436</u>
Decrease in cash and cash equivalents	5,142	(4,090)
CASH AND CASH EQUIVALENTS		
Beginning of period	<u>95,425</u>	<u>99,515</u>
End of period	<u>\$ 100,567</u>	<u>\$ 95,425</u>

Notes on Exhibit A-4 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

The Town of Sorrento, Louisiana (Town), was incorporated September 11, 1956, under the provisions of the Lawrason Act. The Town operates under a Mayor-Council form of government.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles 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. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies of the Town are described below.

Reporting Entity

This report includes all funds and account groups which are controlled by or dependent on the Town's executive and legislative branches (the Mayor and Council). Control by or dependence on the Town was determined on the basis of budget adoption, taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

Based on the foregoing criteria, a certain organization (Fire Department) is not part of the Town and is thus excluded from the accompanying financial statements. No control is exercised by the Town over its operations.

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 expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used when accounting for depreciation and the allowance for doubtful accounts.

Fund Accounting

The Town uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, 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.

Funds of the Town are classified into two categories - governmental and proprietary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use, and balances of expendable financial resources and related liabilities of the Town are accounted for through governmental funds. Measurement is focused upon determining changes in financial position, rather than net income. The following is the governmental fund type of the Town:

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.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds differ from governmental funds in that their focus is on income measurement, which, together with the maintenance of equity, is an important financial indicator. Proprietary funds include:

Enterprise Funds - Enterprise funds are used to account for utility operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Account Groups

Account groups are used to establish accounting control and accountability for the Town's fixed assets and general long-term debt. The following are the account groups of the Town:

General Fixed Assets Account Group - Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and are recorded as expenditures in the governmental fund types when purchased. The Town has elected not to capitalize public domain ("infrastructure") fixed assets consisting of certain improvements other than buildings, including roads, bridges, sidewalks, and drainage improvements. No depreciation has been provided on general fixed assets.

The proprietary fund is accounted for on a cost of service or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with its activity are included on its balance sheet.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Lines, meters, & sewer system	50
Water well, tank & pump	10
Equipment	5

All fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are stated at their estimated fair value on the date received.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds are maintained on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become available (collectible within the current period, 60 days) and measurable (amount can be determined). Expenditures are recognized in the accounting period in which the liability is incurred. The modified accrual basis of accounting as applied to the major sources of revenue is as follows:

Ad valorem taxes are recorded in the year the taxes are assessed. Ad valorem taxes are assessed on a calendar year basis, become due on November 15th of each year, and become delinquent after December 31st. The taxes are generally collected in December, January and February of the current year.

Sales taxes are recognized when collected by the intermediary collecting government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

All proprietary funds are accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The proprietary funds use the accrual basis of accounting and apply all applicable FASB pronouncements in accounting and reporting for its proprietary operations. Revenues are recognized when earned, and expenses are recognized at the time liabilities are incurred.

Budget Policy and Budgetary Accounting

A proposed budget is prepared and submitted to the Mayor and Town Council prior to the beginning of each fiscal year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

The annual operating budget covers general, special revenue, debt service funds, capital projects and enterprise funds. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Town Council and are included in the financial statements.

The financial transactions of the debt service funds are comparable to the budgeted revenues, expenditures and other financing sources (uses) adopted by the Town Council. Accordingly, individual budget comparisons are not presented in this financial report.

In connection with budget preparation, a portion of the unreserved fund balance of an individual fund may be designated for expenditures of the subsequent year. Such designation represents the extent to which the fund balance is used to balance the subsequent year's operating budget of that fund, as reflected in the legally adopted budget.

Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 financial statement presentation.

Investments

Investments are stated at market value, which approximates cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash on the balance sheet of the general fund represents cash received from the restricted sales tax for the purposes of recreation, fire protection, and senior citizen programs.

Bad Debts

Uncollectible amounts due for ad valorem taxes and other receivables are recognized as bad debts as a direct charge off at the time information becomes available which indicates that the particular receivable is not collectible. In governmental fund types, the uncollectible amount is charged directly to the revenue reported. On the other hand, in proprietary fund types, the uncollectible amount is recognized as a bad debt expense. At June 30, 2003 the allowance for doubtful accounts for the proprietary fund was \$5,000.

Compensated Absences

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

Each full time employee is entitled to 10 days vacation and 5 days sick leave for each year worked. For those full time employees hired prior to August 18, 1992, vacation benefits increase after 10 years worked to 15 days, and after 15 years worked to 20 days. These benefits are non-cumulative and must be taken when due. As a result, no liability is recorded in these financial statements.

Dedicated Sales Tax

The Town of Sorrento Council passed an ordinance, effective July 1, 1981, levying a one cent sales tax for the purposes of general operating expenses (70%), recreation (10%), fire protection (10%), and senior citizens programs (10%).

Reserves and Designations of Equity

Some portions of fund balance are reserved to indicate that a portion of equity is legally restricted to a specific future use and is not available for appropriation or expenditure.

Designated portions of fund balance indicate tentative future spending plans, which may be changed and are subject to subsequent authorization before expenditures can be made. The Town has made the following reserves and designations of equity: (a) *Reserved* is that portion of fund balance which will be used for the funding of recreation, fire protection and senior citizen programs from the Town's dedicated sales tax, and (b) *Designated for subsequent year's expenditures* is that portion of fund balance which has been earmarked to make up the subsequent years' budget shortfall.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data

Comparative total data for the prior year has been presented in certain accompanying financial statements to provide an understanding of changes in the Town's operations.

Total Columns on Combined Statements

Total columns on the combined 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 principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Statement of Cash Flows

For purposes of the statement of cash flows, liquid investments of the enterprise funds, including restricted assets, with a maturity of three months or less are considered to be cash equivalents.

NOTE 2 - CASH AND INVESTMENTS

The Town may invest in United States bonds, treasury notes, or certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana or other qualifying federally insured investments.

At June 30, 2003, the Town's deposits (including demand deposit accounts and restricted cash) totaled \$823,537 and the related bank balances were \$842,224. The bank balance is categorized as follows:

Category 1 - Amount insured by the FDIC	\$ 100,000
Category 2 - Amount collateralized with securities held by the pledging financial institution's trust department in the Town's name	109,795
Investments not subject to categorization: Louisiana Asset Management Pool (LAMP)	<u>632,429</u>
Total	<u><u>\$ 842,224</u></u>

Investment by the Town in the LAMP pools is considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book form.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

The government's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name, or (3) uninsured and unregistered for which securities are held by the broker or dealer, or by its trust department or agent but not in the government's name.

NOTE 3 - AD VALOREM TAXES

Taxes are levied by the Town in September or October, and are billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year assessed. Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year.

For the year ended June 30, 2003, taxes of 6.60 mills were levied on property with assessed valuations totaling \$4,723,910, and were dedicated to general government. Total taxes levied were \$31,178.

NOTE 4 - RESTRICTED ASSETS

Restricted cash at June 30, 2003, were applicable to the following:

Fire protection	\$ 10,700
Senior citizens programs	28,713
Recreation	<u>154,455</u>
Total	<u>\$ 193,868</u>

NOTE 5 - CONCENTRATION OF CREDIT RISK - PROPRIETARY FUND

Accounts receivable and related user fees from utility customers were comprised largely of residents in the Town. Most customers have made deposits to partially secure their outstanding balance.

NOTE 6 - FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Land	\$ 29,450	\$ -	\$ -	\$ 29,450
Buildings	187,624	-	-	187,624
Equipment	289,812	9,752	(7,044)	292,520
Total	\$ 506,886	\$ 9,752	\$ (7,044)	\$ 509,594

A summary of proprietary fund type property, plant, and equipment at June 30, 2003 follows:

Sewer System	\$ 744,815
Water well, tank, & pump	66,508
Total	811,323
Less accumulated depreciation	(195,198)
Total	\$ 616,125

NOTE 7 - PENSION PLAN

Substantially all police employees of the Town of Sorrento are members of the Municipal Police Employees Retirement System of Louisiana ("System"), a cost sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information relative to the plan is as follows:

Plan Description.

All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire after at least 25 years of creditable service, or at or after age 50 with at least 20 years of creditable service, or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 percent of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana, 70809-2250, or (225)929-7411.

NOTE 7 - PENSION PLAN (CONTINUED)

Funding Policy

Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the Town of Sorrento is required to contribute at an actuarially determined rate. The current rate is 9.0 percent of annual covered payroll. The contribution requirements of plan members and the Town of Sorrento 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's contributions for the year ending June 30, 2003 was \$2,717.

NOTE 8 - CONTRIBUTED CAPITAL — PROPRIETARY FUND

Contributed capital is recorded in the Enterprise Fund for capital grants restricted for the acquisition or construction of capital assets. The Town placed this sewer system (acquired by LCDBG funding) into service in October 1992. The Town elected to record depreciation of the sewer system as a reduction in the contributed capital account, because it does not plan to recuperate the grant investment through the user fees. The user fees are to be used for operating purposes. The contributed capital account is also used for the recording of the donated property (gas tie-in, piping, metering station, water well, tanks, and pump). The same depreciation policy is used for this property as well as the sewer system.

NOTE 9 - CONTINGENCIES

Lawsuits

At June 30, 2003, two lawsuits are pending against the Town. In the opinion of Town management, the potential loss on lawsuits will not be material to the Town's general-purpose financial statements.

Risk Management

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the Town carries commercial insurance. There were no major changes in insurance coverage from the prior year and settlements have not exceeded coverage in the current year or in the past three years.

NOTE 10-DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Nationwide Retirement Solutions, Inc. (Nationwide). The plan, available to all Town employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. In accordance with the amended provisions of Internal Revenue

NOTE 10-DEFERRED COMPENSATION PLAN (CONTINUED)

Code, all amounts deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and their beneficiaries. As required, the Town established a custodial account with a third party administrator who will hold the assets and income of the plan. Assets totaling \$13,366 are held by Nationwide, a deferred compensation administrator, under agreement with the Town.

The Town has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Under this statement governments who have no responsibility for the plan and are not formally considered the plan's trustee are not required to report the plan in its financial statements. Since the Town plan is held in a custodial account with a third party administrator, the assets and liabilities are not presented in the Town's financial statements.

NOTE 11-COMPENSATION OF GOVERNING BOARD

	Monthly	Annual
Mayor - Camile Trabeau	\$ 765	\$ 9,180
Council Members		
Earl LeBlanc	200	2,400
Gilda Bourgeois	200	2,400
Edwin Pezant	200	2,400
Troy Braud	200	2,400
Paul Kerek	200	2,400
Total	\$ 1,765	\$ 21,180

NOTE 12-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Exceeding Appropriations

For the year ended June 30, 2003, the General Fund had an excess of expenditures over appropriations in public safety, and highway and streets of approximately \$26,300 and \$22,600, respectively.

NOTE 13-SUBSEQUENT EVENTS

The Town has received a grant of approximately \$730,000 from the Louisiana Community Development Block Grant Program (LCDBG) to establish a new municipal water system. Construction is scheduled to begin during fiscal year 2004.

SPECIAL INDEPENDENT AUDITORS' REPORT

For the year ended June 30, 2003



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

The Honorable Mayor and
Members of the Town Council,
Town of Sorrento, Louisiana

We have audited the general purpose financial statements, as listed in the table of contents, of the **TOWN OF SORRENTO, LOUISIANA**, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 18, 2003. 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

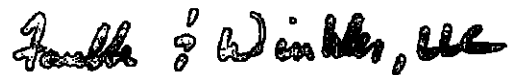
As part of obtaining reasonable assurance about whether the **TOWN OF SORRENTO, LOUISIANA**'s general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-1 and 2003-2.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **TOWN OF SORRENTO, LOUISIANA**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-3 and 2003-4.

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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described in the schedule of findings and questioned costs involving internal control over financial reporting are also considered to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies and pass-through entities and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Baton Rouge, Louisiana
September 18, 2003

TOWN OF SORRENTO, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2003

1) Summary of Auditors' Results:

- A) The type of report issued on the general purpose financial statements: **Unqualified opinion.**
- B) Reportable conditions in internal control were disclosed by the audit of Financial Statements: **2003-3 and 2003-4.**
Material weaknesses: **See reportable conditions above.**
- C) Noncompliance that is material to the general purpose financial statements: **None.**
- D) Findings relating to the financial statements reported in accordance with Government Auditing Standards: **2003-1 and 2003-2.**

2) Findings – Financial Statement Audit

2003-1 Asset Management

Observation: During 2003, the Town confiscated cash and vehicles during drug related arrests. These items have been maintained on hand at the Police Department. The cash has not been deposited in the Town's bank account.

Additionally, during our review of cash management procedures of the Town for the year ended June 30, 2003 and 2002, we discovered that the Town does not consistently deposit cash on a daily basis. Town personnel contended that it is not practical to deposit cash on a daily basis and such funds were secured overnight in the Town's safe.

Recommendation: We recommend that the Town deposit cash on a daily basis to alleviate the risk of misappropriation of the Town's funds and to maintain an adequate accounting of its cash position.

Additionally, we recommend that the Town develop a policy for the administration of assets confiscated by its Police Department relating to drug related arrests, including expenditure of such resources. The policy should be reviewed with the Town's legal counsel.

Management's corrective action plan: The Chief of Police has requested that confiscated funds be deposited in a separate bank account and utilized in furthering drug related law enforcement activities. However, the Town is considering the appropriate management of these resources and will review the matter with its legal counsel.

Further, management believes that the daily deposit of cash is impractical. The Town's policy is to deliver large deposits on a daily basis. Smaller deposits of \$100 or less are not delivered daily and are adequately secured each evening. As a result, the Town believes that this practice is adequate for its needs.

2003-2 Senior Citizen Program Expenditures

Observation: The Town receives a dedicated sales and use tax to conduct senior citizen programs. Based on our review of the expenditures made during 2003 and 2002, we found the following:

- The Town has established a policy for its sewer users over the age of 65 to be provided with six months of free garbage services during a fiscal year. The billings sent by the Town's utility fund for these individuals are paid from dedicated sales and use tax proceeds. The total expense related to this service during 2003 and 2002 was approximately \$12,200 and \$12,400, respectfully.
- The Town provides an annual Christmas party for its senior citizens participating in the program. The total expense related to this activity during 2003 and 2002 was approximately \$2,400 and \$3,600, respectfully.

The Town obtained an Attorney General's opinion regarding the expenditure of these dedicated tax receipts during 2003. The opinion stated that the program expenditures listed above benefited the Town's senior citizens and is within the dedicated purpose of the tax. However, certain matters are being clarified with the Attorney General's office related to this matter. The Town expects to receive correspondence and will finalize a decision upon receipt from that office.

Recommendation: We recommend the Town review this matter with its legal counsel for appropriate resolution.

Management's corrective action plan: The Town intends to obtain a second Attorney General's opinion regarding the expenditure of these dedicated tax receipts. Upon receipt of the opinion, the Town will determine the corrective action necessary, if any.

2003-3 Segregation of Duties

Observation: There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small size of the Town. These limitations allow no opportunity for meaningful segregation of duties.

Recommendation: We recommend that the Mayor review and approve the following:

- Check disbursements and related supporting documentation,
- Monthly bank statement (including the cancelled checks) and related reconciliation.

Additionally, the Mayor and Town Council should review and approve the monthly bills including vendor invoices and, on a monthly basis, detailed financial statements.

Management's corrective action plan: Due to the size of the Town, the achievement of adequate segregation of duties is desirable to management but is cost prohibitive. Based on a review of personnel responsibility, the Town would need an additional employee in finance to achieve adequate segregation of duties.

Additionally, the Mayor approves all disbursements of the Town. Secondly, the Mayor and Town Council approve outstanding accounts payable during its regularly scheduled meetings. Finally, the Town has expanded the itemization of expenses reflected on its monthly financial statements for detailed review. Based on these actions taken, the Town believes that it has enhanced its internal control over financial reporting.

2003-4 Traffic Fine Collections

Observation: During 2003, the Town's police department issued fines of approximately \$97,000 and assessed related court cost of approximately \$103,000, which amount to approximately \$200,000 of revenues. The Town collected \$60,000 of these assessed fines and court costs. A warrant was issued for the arrest of the offenders that have not paid the remaining \$140,000. No further action has been taken by the Town to collect these outstanding amounts due.

Recommendation: We recommend that the Town notify the Louisiana Department of Motor Vehicles for individuals that have not paid fines and related court costs after issuance of a bench warrant. Additionally, the Town should consider involving its legal counsel to enhance collection efforts.

These practices may result in a higher probability of collecting these revenues.

Management's corrective action plan: The Town will review this matter with its Chief of Police for further action. Additionally, the Chief of Police has indicated that the Town may consider involving the District Attorney to enhance cash collection efforts associated with these activities. In any event, the Police department will make a better effort to submit these traffic offenders to the Louisiana Department of Motor Vehicles.

TOWN OF SORRENTO, LOUISIANA

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2003

2002-1 Compensation of Police Officers (Resolved)

Prior year finding: In February, 2002, the Town entered into a contract with a local business for security services at its location. The Town was compensated for these services based on an hourly rate for each hour worked by off-duty police officers. The Town paid each officer at the agreed upon rate with no employee withholdings being made. In April 2002, the Town ceased this practice and revised its records to treat such payments as employee wages rather than as independent contractors. Management ceased the contract immediately upon notice of the incorrect treatment for the payment and reporting of such compensation to officers. Additionally, corrections were made to report the disbursement as employee wages and the Town paid the related taxes and benefits.

This matter is considered resolved.

2002-2 Senior Citizen Program Expenditures

This finding has been reclassified as 2003-2.

2002-3 Fixed Asset Management (Resolved)

Prior year finding: According to L.R.S. 39:324, the Town is required to complete a physical inventory of its property annually. During the year ended June 30, 2002, the Town did not complete a physical inventory.

The Town conducted a physical inventory of its property during 2003. This matter is considered resolved.

2002-4 Financial Reporting/Budgeting (Resolved)

Prior year finding: The Town prepared its operating expenditure budget for 2002 on a total budget basis rather than on an itemized basis for each department. Additionally, monthly financial reports were based on the same reporting basis. As a result, expenditures of the Town were compared to the appropriation on a total departmental basis only. Louisiana law requires the operating budget of expenditures to be itemized by department, function and character. The Town's operating budget did not provide for this detail.

The Town adopted its 2003 and 2004 budget to include an itemization of major expenses by department and functional category. Additionally, the Town prepared its monthly financial statements to include comparison of actual expenses to the itemization adopted in the operating budget.

This comment has been reclassified to the management letter as OR 2003-2.

2002-5 Cash Management

This finding has been reclassified as 2003-1.

2002-6 Prohibited Transactions and Authorized Activity (Resolved)

Prior year finding: During 2002, a prohibited transaction was discovered. The Town transacted with a local supermarket where a town council member is employed. The Town requested an ethics opinion relating to the matter that confirmed their concern. As a result, the Town discontinued transacting with the vendor.

Additionally, we reported that a bank account was opened for the receipt of contributions and disbursement of specific program expenditures. The Town Council did not authorize the new account. Finally, certain small in-kind contributions were received without inclusion in the Town's subsequently issued financial statements. One of the contributors (approximately \$200) was a vendor to the Town.

The Town discontinued conducting business with the vendor upon receipt of the opinion from the Board of Ethics. Additionally, the Town has reviewed its vendor roster for other similar situations and found no other instances.

Finally, the Town has discontinued the solicitation and receipt of in-kind contributions. As a result, these matters are considered resolved.

2002-7 Segregation of Duties

This finding has been reclassified as 2003-3.

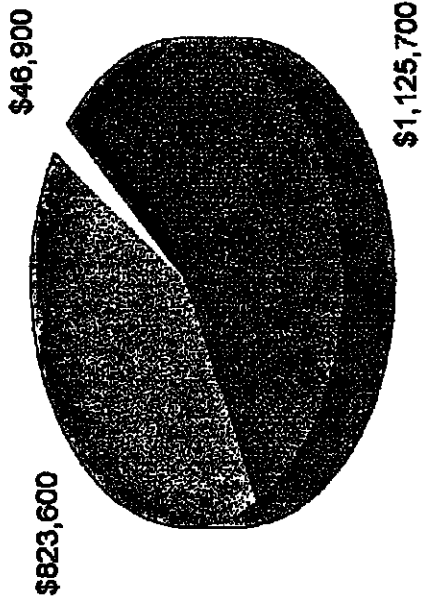
TOWN OF SORRENTO, LOUISIANA

STATISTICAL SECTION

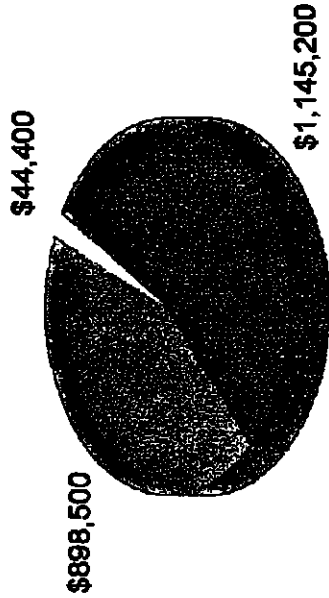
The accompanying pages are for use in comparing the results of 2003 operations and amounts to those of prior years. The significance of the information is the long-term trends associated with the statistics.

TOWN OF SORRENTO, LOUISIANA

TOTAL ASSETS



JUNE 30, 2003



JUNE 30, 2002

<input type="checkbox"/> FIXED ASSETS	<input type="checkbox"/> CASH & INVESTMENTS	<input type="checkbox"/> OTHER
---------------------------------------	---	--------------------------------

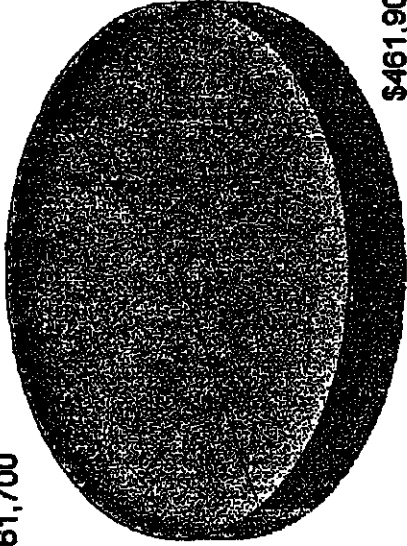
TOTAL ASSETS = \$ 1,996,200

TOTAL ASSETS = \$ 2,088,100

TOWN OF SORRENTO, LOUISIANA

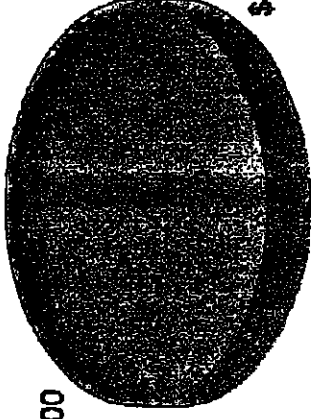
CASH AND INVESTMENTS

\$361,700



JUNE 30, 2003

\$447,000



\$451,500

JUNE 30, 2002

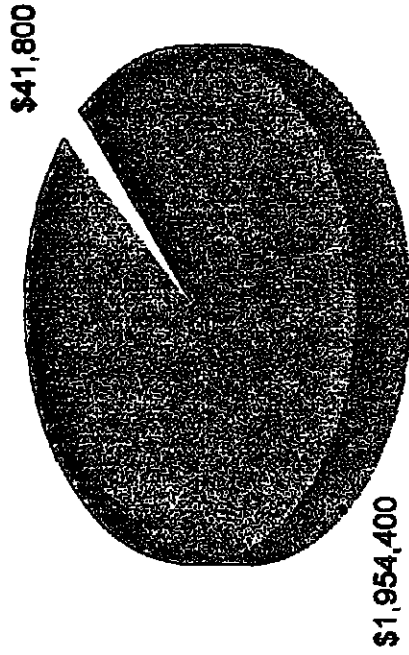
<input checked="" type="checkbox"/> ENTERPRISE	<input checked="" type="checkbox"/> GENERAL
--	---

TOTAL CASH & INVESTMENTS = \$ 823,600

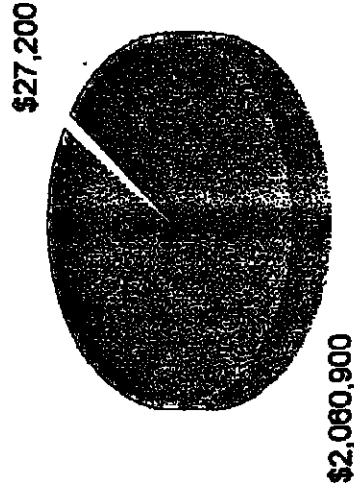
TOTAL CASH & INVESTMENTS = \$ 898,500

TOWN OF SORRENTO, LOUISIANA

LIABILITIES AND FUND EQUITY



JUNE 30, 2003



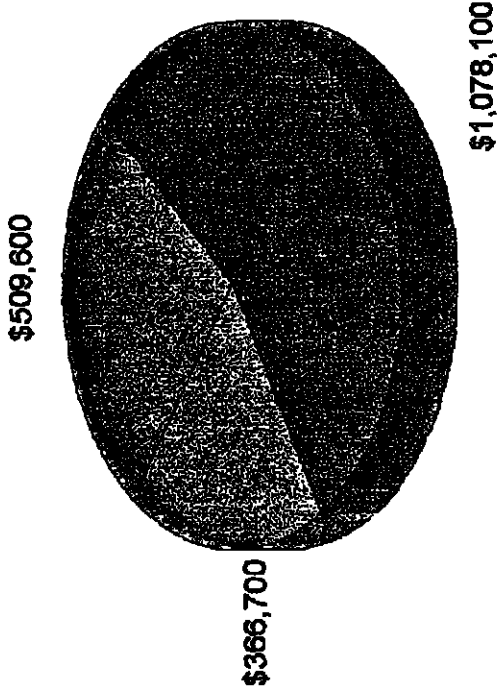
JUNE 30, 2002

CURRENT LIABILITIES	FUND EQUITY
---------------------	-------------

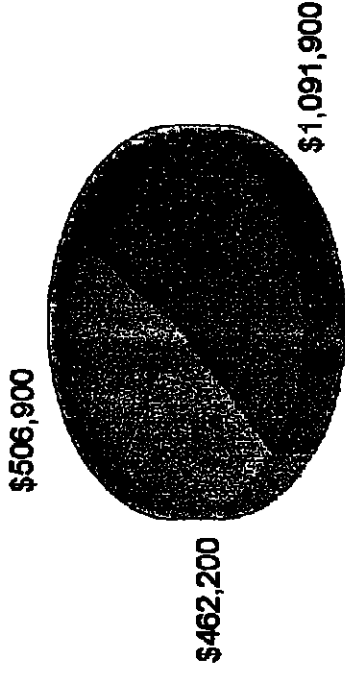
TOTAL LIABILITIES = \$ 41,800	TOTAL LIABILITIES = \$ 27,200
TOTAL FUND EQUITY = \$ 1,954,400	TOTAL FUND EQUITY = \$ 2,060,900

TOWN OF SORRENTO, LOUISIANA

FUND EQUITY



JUNE 30, 2003



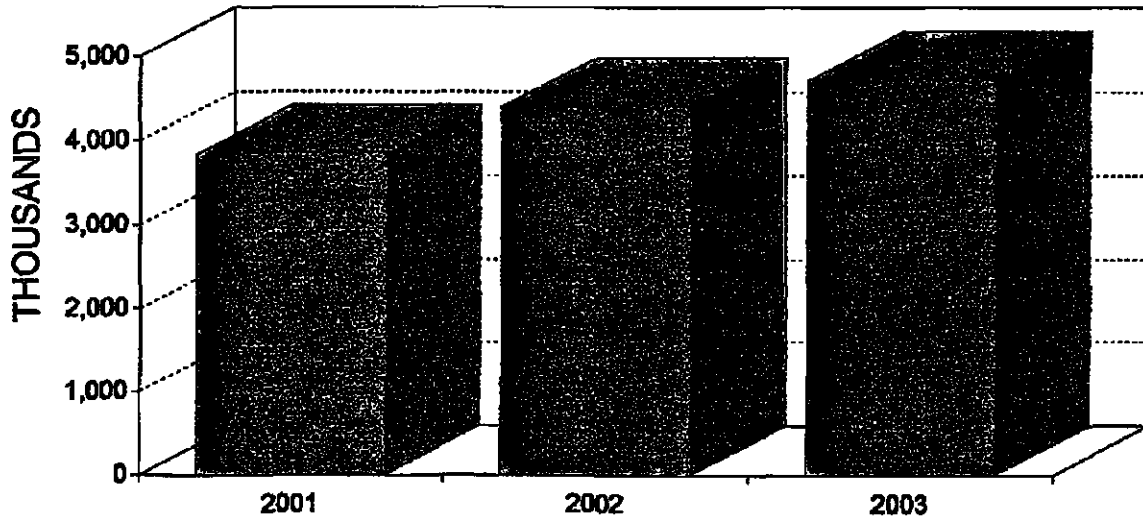
JUNE 30, 2002

 ENTERPRISE	 GENERAL	 GEN FIXED ASSETS
--	---	--

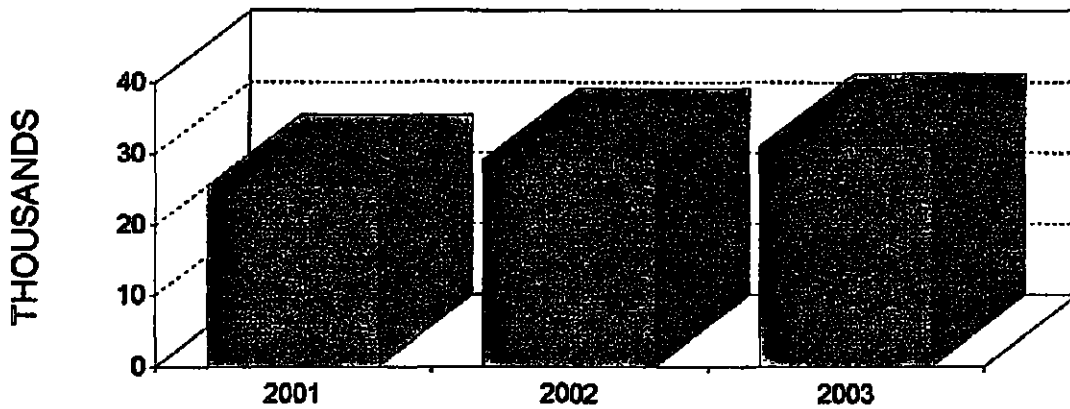
TOTAL FUND EQUITY = \$ 1,954,400

TOTAL FUND EQUITY = \$2,060,900

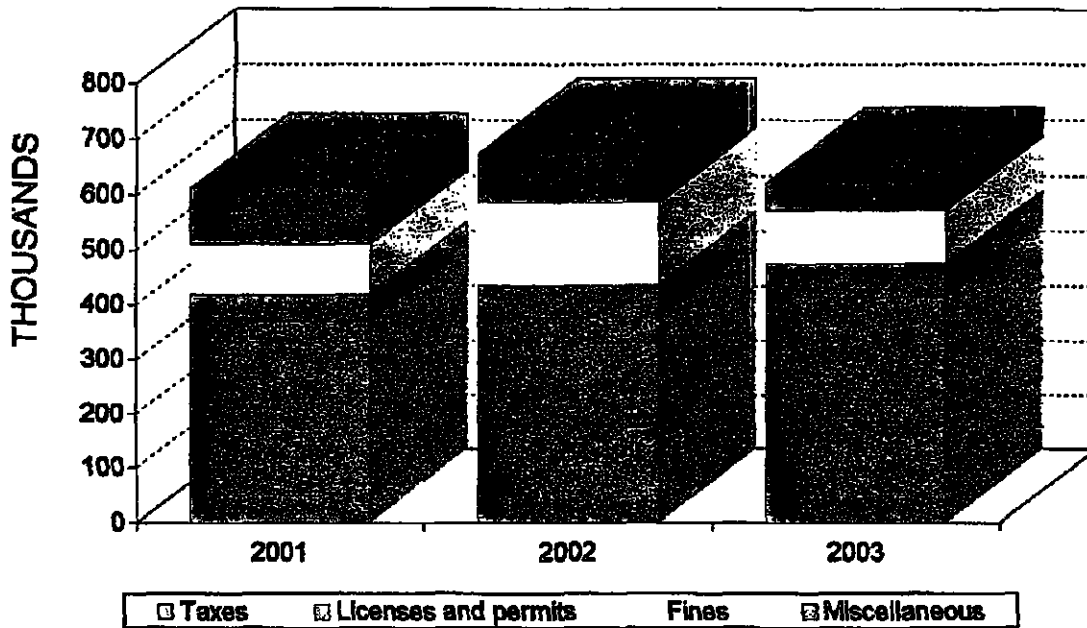
**TAXABLE ASSESSED VALUE OF PROPERTY
TOWN OF SORRENTO, LOUISIANA**



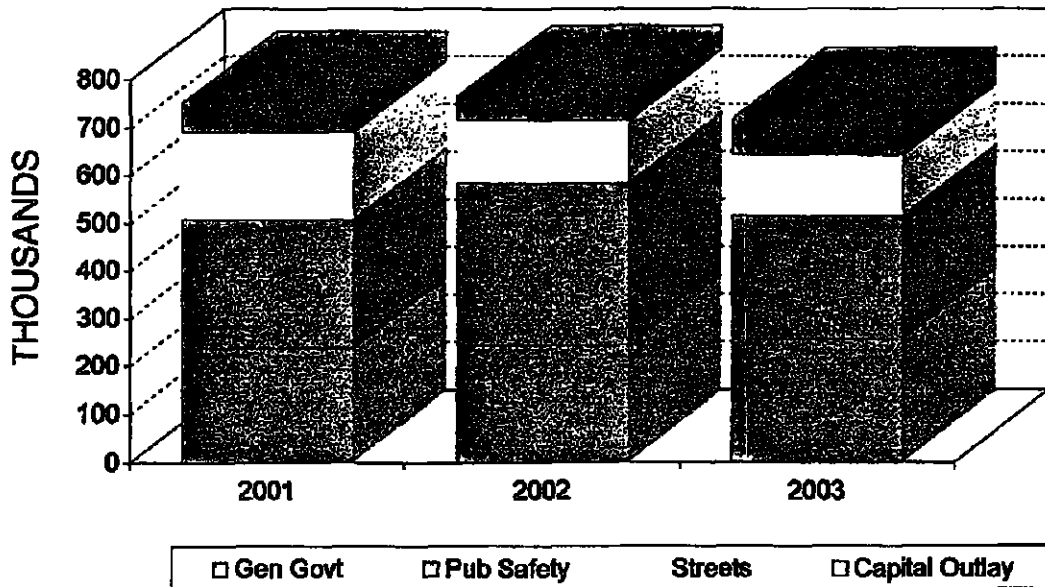
**PROPERTY TAXES - ASSESSED
TOWN OF SORRENTO, LOUISIANA**



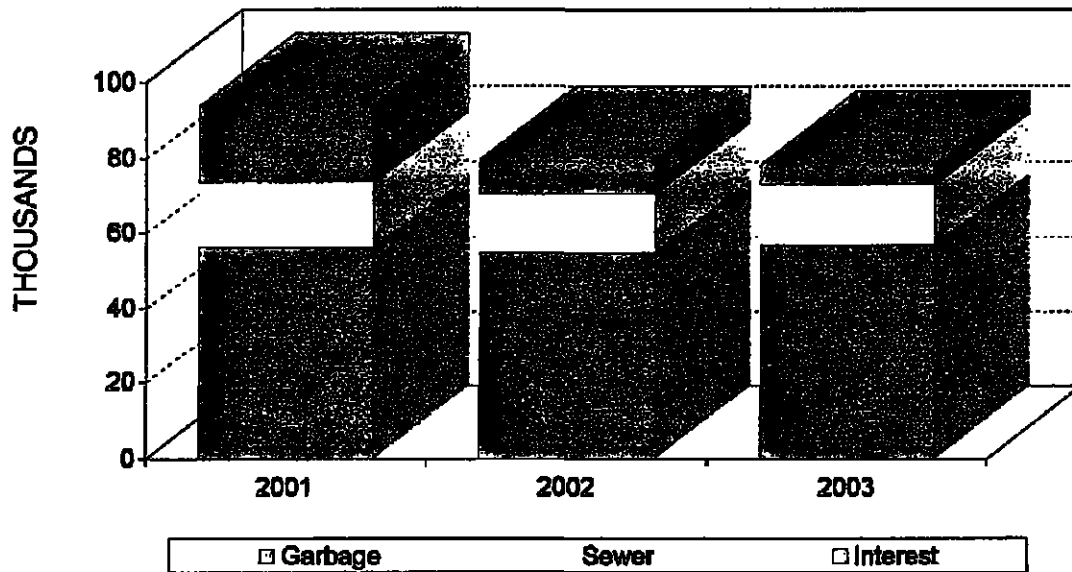
GENERAL FUND REVENUES TOWN OF SORRENTO, LOUISIANA



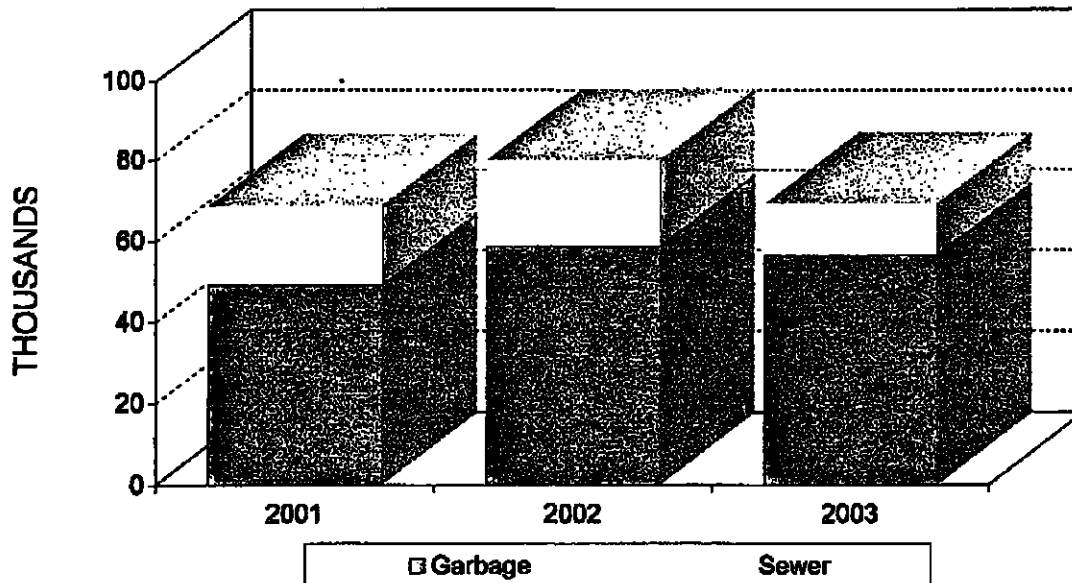
GENERAL FUND EXPENDITURES TOWN OF SORRENTO, LOUISIANA



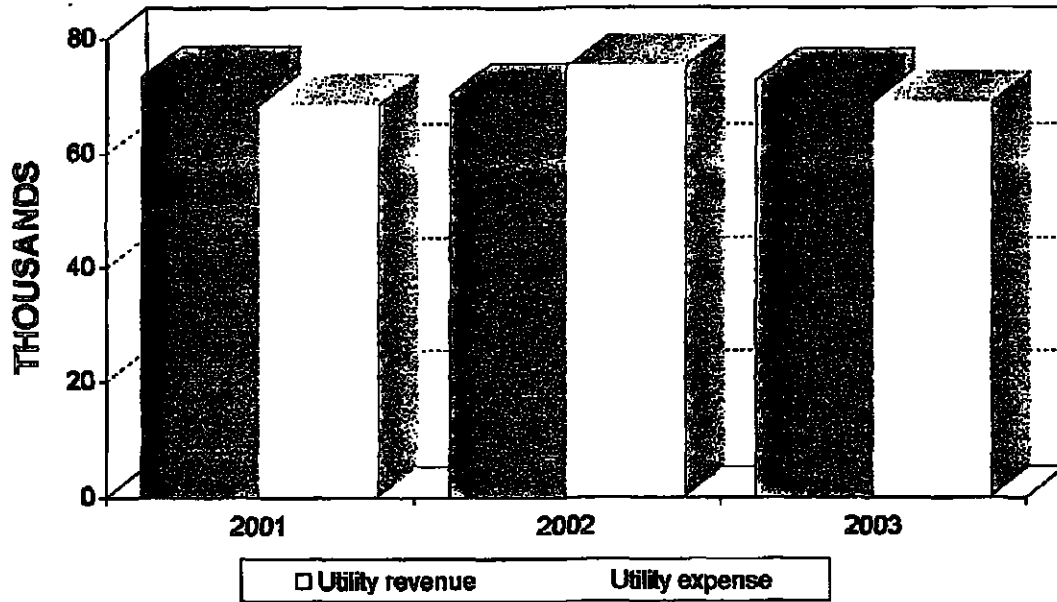
**UTILITY FUND REVENUES (GARBAGE & SEWER)
TOWN OF SORRENTO, LOUISIANA**



**UTILITY FUND EXPENSES (GARBAGE & SEWER)
TOWN OF SORRENTO, LOUISIANA**



UTILITY FUND REVENUE & EXPENSES
(GARBAGE & SEWER)
TOWN OF SORRENTO, LOUISIANA





Honorable Mayor and Members of
the Board of Alderman,
Town of Sorrento, Louisiana

In planning and performing the audit of the financial statements of the Town of Sorrento (the Town) for the year ended June 30, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. We have reported on the Town's internal control in our report dated September 18, 2003; this letter does not affect that report.

We will review the status of the comment during our next audit engagement. We have discussed this comment and suggestion with certain Town personnel, and we will be pleased to discuss the comment in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendation. Our comment is summarized on Attachment A.

This report is intended solely for the information and use of the Town's management, the Louisiana Legislative Auditor, and others within the organization.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
September 18, 2003

OPERATIONAL RECOMMENDATIONS

UTILITY FUND OPERATIONS: OR 2003-1

Observation: During the year ended June 30, 2003, delinquent accounts receivable approximated \$5,900. An allowance for doubtful accounts for \$5,000 has been established.

Additionally, the fund experienced a small net loss during 2002. During 2003, the Town experienced a profit from utility services; however, the delinquent accounts receivable has increased by approximately \$700 during 2003.

Recommendation: The Town should review its collection policies to alleviate future potential bad debts. Additionally, the Town should review the listing of delinquent accounts receivable with its legal advisor to pursue appropriate legal action.

Management's corrective action plan: The Town is considering the following:

- Subsequent to June 30, 2003, the Town increased sewer user fees by two dollars and the garbage fee by one dollar to alleviate future operating losses,
- The Town currently utilizes the Justice of the Peace to assist with collection of delinquent utility receivables, but has experienced limited success. As a result, the Town anticipates exploring alternatives for future needs,
- The Town also enters into installment agreements with utility users, which has resulted in some collections. However, the Town anticipates forwarding perpetually delinquent accounts to the Town attorney for appropriate action.

The Town's collection efforts are made especially difficult because the only utility service offered is sewer services. As a result, it lacks the ability to cut-off services to delinquent users.

BUDGETING AND FINANCIAL REPORTING: OR 2003-2

Observation: During the audit performed for the year ended June 30, 2002, we recommended that the Town prepare its operating budget on a itemized basis rather than on a overall departmental presentation. Additionally, we recommended that the monthly financial statements be maintained on the same basis and compared to the operating budget.

During 2003, the Town adopted an itemized budget and expanded its financial reporting practices to itemize reported expenditures. However, the detail provided in the financial statements exceeds that which is presented in the operating budget. As a result, it is difficult to compare actual results to the operating budget.

Recommendation: We recommend that the operating budget and monthly financial statements be prepared on the same basis to allow for meaningful interim comparison of operating results. Additionally, the monthly financial statements should be reviewed on a monthly basis with the Mayor and Town Council.

Management's Corrective Action Plan: Management of the Town will explore implementing this recommendation during 2004, to include amending the budget and financial statement presentations that will be reviewed monthly with the Town Council.