

CITY OF HARAHAN, LOUISIANA**Financial Statements and Schedules****December 31, 2005****With Independent Auditors' Report Thereon**

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 10-25-06

CITY OF HARRAHAN, LOUISIANA

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Harahan, Louisiana:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harahan, Louisiana, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information for the City as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 35 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying financial information as listed in the Table of Contents as Supplemental Information Schedules, pages 37 through 39 is presented for purposes of additional analysis and is not a required part of the government financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the government financial statements and the combining and individual fund financial statements and schedules, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Postlethwaite & Netherwill

Metairie, Louisiana
September 7, 2006



CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

As financial management of the City government, we offer readers of this financial statement an overview and analysis of the financial activities of the City of Harahan. This narrative is designed to assist the reader in focusing on significant financial issues, identify changes in the government's financial position, identify any material deviations from the approved budget documents, and identify individual fund issues or concerns. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the Letter of Transmittal and the financial statements that begin with Statement A.

FINANCIAL HIGHLIGHTS

- At December 31, 2005, unreserved fund balance for the General Fund was \$(2,102,082), or (23%) of total 2005 General Fund expenditures.
- Assets of the City government exceeded its liabilities at the close of the most recent fiscal year by \$1,275,530 (*net assets*).
- As of the close of the current fiscal year, the government's governmental funds reported combined ending fund balance deficit of (\$1,676,108).

OVERVIEW OF THE FINANCIAL STATEMENTS

With the implementation of Governmental Accounting Standards Board Statement 34, a government's presentation of financial statements has been greatly changed. The new statements focus on the government as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the reader to address relevant questions, broaden a basis for comparison (year to year or government to government) and should enhance the City's accountability.

Government-Wide Financial Statements

The government-wide financial statements (see Statement A and B) are designed to be similar to those of private sector businesses in that all governmental and business-type activities are consolidated into columns which add to a total for the government. The statements combine all governmental funds' current financial resources with capital assets and long-term obligations. Also presented in the government-wide financial statements is a total column for the business-type activities of the government.

The Statement of Net Assets (Statement A) presents information on all the government's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

The Statement of Activities (Statement B) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods. For example, uncollected taxes and earned but unused vacation leave result in cash flows for future periods. The focus of the Statement of Activities is on both the gross and net cost of various activities which are funded by the City's general tax and other revenues. This is intended to summarize information and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities.

The governmental activities reflect the City's basic services including general government services (executive, legislative, judicial), public safety (fire and police), public works (sanitation and street and road maintenance), recreation, and intergovernmental.

These services are financed primarily with taxes. The business-type activities reflect private sector type operations (sewer district) where the fee for service typically covers all or most of the cost of operations, including depreciation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than generic fund types.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Governmental Major Fund (see Statement C and E) presentation is presented on a modified accrual basis. This is the manner in which the financial plan is typically developed excluding certain timing differences between the budget basis and the generally accepted accounting principle (GAAP) basis. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements. The City has presented the General Fund, Sales Tax Fund, Bond Sinking Fund, and Bond Reserve Fund as major funds. All non-major governmental funds are presented in one column, titled Non-Major Fund Type. Combining financial statements of the non-major funds can be found in the Combining and Individual Fund Statements that follow the basic financial statements.

Proprietary Funds encompass the enterprise fund on the fund financial statements. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Proprietary fund of the City is the Sewer District fund.

Fund financial statements also allow the City to present *fiduciary funds*. While these funds represent a trust

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

responsibility, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the activity reported on the business-type fund financial statements for enterprise funds (see Statement H) is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires a reconciliation because of the different measurement focus which is reflected on the page following each statement (see Statements D and F). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources and will show capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the Governmental Activities column in the government-wide statements.

Capital Assets

General capital assets include land, improvements to land, buildings, transportation equipment, other equipment, computer equipment, and furniture and fixtures and all other tangible assets that are used in operations and that have initial useful lives greater than two years and exceed the government's capitalization threshold (see Financial Statement Note 1). The City has capitalized all purchased general capital assets. Infrastructure assets (those placed into the government's maintenance through contributions from private development) have not been capitalized in this financial presentation for the years 1980 through 2002. Governmental Accounting Standards Board Statement No. 34 allows the City a transitional period for reporting infrastructure assets purchased prior to 2003 until 2007. Prior to the implementation of the new reporting model, no depreciation is charged on general capital assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning major fund budgetary comparisons. Required supplementary information can be found at Schedules 1 and 2.

The combining statements referred to earlier in connection with the non-major governmental and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules include Schedules 3 through 4 of the report. Certain supplementary financial information can be found in Schedule 5 of this report. This schedule is included for additional information and analysis and does not constitute a part of the audited financial statements.

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2005:

**Condensed Statement of Net Assets
December 31, 2005**

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Current and Other Assets	\$ 6,422,283	\$ 72,081	\$ 6,494,364
Restricted Assets	641,186	-	641,186
Capital Assets	<u>1,276,649</u>	<u>2,904,002</u>	<u>4,180,651</u>
Total Assets	<u>8,340,118</u>	<u>2,976,083</u>	<u>11,316,201</u>
Liabilities:			
Current Liabilities	5,146,687	378,890	5,525,577
Long-Term Liabilities	<u>4,265,094</u>	<u>250,000</u>	<u>4,515,094</u>
Total Liabilities	<u>9,411,781</u>	<u>628,890</u>	<u>10,040,671</u>
Net Assets:			
Invested in Capital Assets			
Net of Debt	936,578	2,654,002	3,590,580
Restricted	364,685	-	364,685
Unrestricted	<u>(2,372,926)</u>	<u>(306,809)</u>	<u>(2,679,735)</u>
Total Net Assets	<u>\$ (1,071,663)</u>	<u>\$ 2,347,193</u>	<u>\$ 1,275,530</u>

For more detailed information see Statement A, the Statement of Net Assets. Approximately \$3,591,000 of the City's net assets as of December 31, 2005, reflects the government's investment in capital assets (land, buildings, infrastructure, transportation equipment, other equipment, computer equipment, and furniture and fixtures) less any related outstanding debt used to acquire those assets. The City government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another \$365,000 of the government's net assets is subject to external restrictions on how those assets may be used, such as sales tax approved by the electorate for specific purposes.

CITY OF HARAHAH
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

The table below provides a summary of the changes in net assets for the year ended December 31, 2005:

Condensed Statement of Changes in Net Assets
For the Year Ended December 31, 2005

	Governmental Activities	Business- Type Activities	Total
Revenues:			
Program Revenue:			
Charges for Services	\$ 1,307,495	\$ 365,184	\$ 1,672,679
Operating Grants and Contributions	4,924,303	-	4,924,303
Capital Grants and Contributions	115,013	-	115,013
General Revenue:			
Ad valorem (property) taxes	707,385	157,197	864,582
Sales and use taxes	1,376,475	-	1,376,475
Other State Revenue not Restricted to Specific Program	370,646	-	370,646
Fines, forfeitures, and other	483,552	-	483,552
Interest income	59,639	2,182	61,821
Gain from insurance proceeds	349,119	-	349,119
Other	57,218	-	57,218
Total Revenues	9,750,845	524,563	10,275,408
Expenses:			
General Government - FEMA	4,545,076	-	4,545,076
General Government - other	1,012,253	-	1,012,253
Public Safety	2,293,305	-	2,293,305
Public Works	205,455	-	205,455
Sewer	-	658,525	658,525
Sanitation	599,003	-	599,003
Recreation	193,796	-	193,796
Interest and Fiscal Charges	189,443	-	189,443
Depreciation	166,653	-	166,653
Amortization	3,993	-	3,993
Total Expenses	9,208,977	658,525	9,867,502
Decrease in Net Assets	541,868	(133,962)	407,906
Net Assets, January 1	(1,613,531)	2,481,155	867,624
Net Assets, December 31	\$ (1,071,663)	\$ 2,347,193	\$ 1,275,530

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

The government's net assets increased \$407,906 during the current year. *Governmental Activities* net assets increased \$541,868 in 2005, primarily due to:

- (1) An increase in operating grants and contributions of \$4,829,380 primarily due to Federal Emergency Management Agency (FEMA) Public Assistance grants.
- (2) An increase in expenses of \$4,998,437 primarily due to Hurricane Katrina and FEMA Public Assistance grant related expenses.
- (2) Additional revenue resulting from a gain from insurance proceeds of \$349,119.
- (3) A decrease of \$95,000 in bonds payable caused by the principal payment during the year. A decrease of \$74,508 in capital lease liability caused by principal payments during the year.

Business Type Activities' net assets decreased \$133,962 in 2005 due to a decline in service charges revenue and an increase in management fee expense. Charges for services were \$365,184 and property tax revenue was \$157,197. Sewer and sewer related expenses totaled \$658,525 in 2005.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the government's governmental funds reported combined ending fund balances of (\$1,676,108), an decrease of \$2,714,573 in comparison with the prior year. Certain balances in the fund balance are *reserved* to indicate that it is not available for new spending because it has already been committed to: (1) designated for capital projects (\$26,106), (2) payment of debt service (\$364,685), or (3) prepaid insurance (\$32,859).

The General Fund is the chief operating fund of the City of Harahan. At the end of the current fiscal year, fund balance of the General Fund was (\$2,069,223), which included an unreserved and undesignated balance of (\$2,102,082) and \$32,859 reserved for prepaid insurance. The fund balance of the General Fund at the end of 2004 was \$567,311.

The fund balance of the Sales Tax Fund increased from \$402 to \$2,324. The increase was a result of the interest income earned during 2005. Sales tax receipts of \$1,385,600 received during 2005 were transferred to the General fund (\$846,214) and the Bond Sinking fund (\$539,386).

The fund balance of the Bond Sinking fund increased from \$68,410 to \$55,673. The Bond Sinking fund decreased \$12,737 resulting from sales tax revenue being less than the transfers to the General fund and principal and interest payments.

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

The fund balance of the Bond Reserve fund increased from \$298,874 to \$309,012. The Bond Reserve fund increased \$10,138 resulting from interest income.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Sewer Fund (Enterprise Fund) at December 31, 2005 totaled \$2,347,193. The Funds had unrestricted net assets of (\$306,809) and net assets of \$2,654,002 invested in capital assets, net of related debt. The fund received revenue from charges for services of \$365,184 and property tax revenues of \$157,197. General operating expenditures of the fund was \$658,525 and depreciation totaled \$113,320.

General Fund Budgetary Highlights

The City approved the final budget revision in December 2005. Budgeted revenues for 2005 of \$4,437,700 increased from the prior year budgeted revenues of \$2,960,566 due to budgeting for intergovernmental revenue and FEMA assistance. Budgeted expenditures for 2005 of \$8,777,108 increased from the prior year budgeted expenditures of \$3,761,586 due to additional incurred expenses relating to clean-up from Hurricane Katrina. The current year budget deficit of \$2,992,097 as approved by the Council is expected to be funded from reimbursements on unobligated Federal Emergency Management Agency (FEMA) Public Assistance grants. Material differences between actual results and final amended budgeted amounts are as follows:

- Intergovernmental revenue of \$1,969,509 includes grant revenue for playground and related equipment (\$70,550), an IEB grant (\$112,291), and reimbursement amounts from Federal Emergency Management Agency (1,455,935). These grant revenues were included in the revised budget.
- The general fund, public safety-fire, and sanitation expenditures are greater than budgeted expenditures due to costs exceeding the budgeted amounts primarily caused by expenses incurred related to Hurricane Katrina which were not reimbursed by FEMA.
- Capital outlay expenses exceeded the budgeted amount because the capital acquisitions funded by grants are not included in the budgeted amounts.
- Other financing sources exceeded the budgeted amount due to the loan proceeds from a FEMA Special Community Disaster Loan (\$445,759), insurance proceeds for damage related to Hurricane Katrina (\$300,000), and capital lease proceeds (\$149,637)
- The Sales tax fund revenues are greater than budget due to the sales tax budget does not include an amount for the tax revenues dedicated to the Bond Sinking fund.

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

Capital Asset and Debt Administration

Capital Assets: The City of Harahan Government's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounts to \$4,180,651 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, computer equipment, other equipment, and furniture and fixtures. The total increase in the City's investment in capital assets for the current fiscal year was \$228,220, a 24% increase for governmental activities. For business-type activities, capital assets decreased \$113,559 or 4%.

**Capital Assets (Net of Depreciation)
December 31, 2005**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Land, land improvement, and buildings	\$ 1,635,932	\$ 13,727	\$ 1,649,659
Sewer treatment plant and system	-	4,998,049	4,998,049
Transportation equipment	1,470,938	26,230	1,497,168
Other equipment	869,613	-	869,613
Furniture and fixtures	29,908	-	29,908
Computer equipment	113,285	-	113,285
	<u>4,119,676</u>	<u>5,038,006</u>	<u>9,157,682</u>
Less: Accumulated Depreciation	<u>(2,843,027)</u>	<u>(2,134,004)</u>	<u>(4,977,031)</u>
	<u>\$ 1,276,649</u>	<u>\$ 2,904,002</u>	<u>\$ 4,180,651</u>

Major capital asset events during the current fiscal year included the following:

- Purchase of land for \$118,000
- Capital lease for a backhoe for \$48,500
- Capital lease for five police cars for \$101,137
- Maintenance on Wainwright Street Drainage for \$61,269

Additional information on the City's capital assets can be found in Note 6 of this report.

CITY OF HARAHAH

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

December 31, 2005

Long-Term Debt: At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,260,000. The debt represents bonds secured by specified revenue sources such as the general sales tax. The City has drawn down \$445,759 of funds available through the Federal Emergency Management Agency Special Community Disaster Loan during December 2005. Additional information on debt administration can be found in Note 7 of this report.

Economic Factors and Next Year's Budget and Rates

The City generally receives approximately 30% of its revenues from sales tax levied by the City and 15% from ad valorem taxes; therefore, economic indicators are very important in forming the budget estimates for the City funds. Revenue assumptions are reviewed by the City Council and the Mayor. The uncertainties of the national, state and local economy requires prudent budgeting by the City's elected officials. The City continues to apply for federal and state grants in order to improve the quality of life for the people of the City.

Requests For Information

This financial report is designed to provide a general overview of the finances of the City of Harahan, Louisiana, for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Mayor 6437 Jefferson Highway, Harahan, Louisiana, 70123.

CITY OF HARAHAH

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets:			
Cash	\$ 1,164,005	\$ 48,360	\$ 1,212,365
Receivables	5,088,404	23,721	5,112,125
Prepays and other assets	32,859	-	32,859
Deferred finance fees	98,710	-	98,710
Restricted assets-cash:	641,186	-	641,186
Capital assets, net of depreciation:	1,276,649	2,904,002	4,180,651
Other	38,305	-	38,305
	<u>8,340,118</u>	<u>2,976,083</u>	<u>11,316,201</u>
Total assets	\$	\$	\$
Liabilities:			
Accounts, salaries and other payables	\$ 4,320,035	\$ 238,890	\$ 4,558,925
Notes payable	795,850	-	795,850
Due to/from other funds	(140,000)	140,000	-
Deferred revenues	19,490	-	19,490
Other liabilities	130,000	-	130,000
Interest payable	21,312	-	21,312
Long term liabilities			
Due within one year	217,519	100,000	317,519
Due after one year	4,047,575	150,000	4,197,575
	<u>9,411,781</u>	<u>628,890</u>	<u>10,040,671</u>
Total liabilities	\$	\$	\$
Net Assets:			
Invested in capital assets, net of related debt	\$ 936,578	\$ 2,654,002	\$ 3,590,580
Restricted for debt service	364,685	-	364,685
Unrestricted	(2,372,926)	(306,809)	(2,679,735)
	<u>(1,071,663)</u>	<u>2,347,193</u>	<u>1,275,530</u>
Total net assets	\$	\$	\$

See accompanying notes to financial statements.

CITY OF HARRAHAN

Statement of Activities

For the year ended December 31, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contrib- utions	Capital Grants and Contrib- utions	Net (Expense) Revenue and Changes in Net Assets		
					Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government - FEMA	\$ 4,545,076	\$ -	\$ 4,485,657	\$ -	\$ (59,419)	\$ -	\$ (59,419)
General government - other	1,012,253	788,359	112,291	70,550	(41,053)	-	(41,053)
Public safety - police	1,450,196	-	191,044	44,463	(1,214,689)	-	(1,214,689)
Public safety - fire	843,109	54,615	112,418	-	(676,076)	-	(676,076)
Public works	205,455	-	14,522	-	(190,933)	-	(190,933)
Sanitation	599,003	464,521	-	-	(134,482)	-	(134,482)
Recreation	193,796	-	8,371	-	(185,425)	-	(185,425)
Interest and fiscal charges	189,443	-	-	-	(189,443)	-	(189,443)
Property loss due to hurricane	-	-	-	-	-	-	-
Depreciation	166,653	-	-	-	(166,653)	-	(166,653)
Amortization	3,993	-	-	-	(3,993)	-	(3,993)
Total governmental activities	9,208,977	1,307,495	4,924,303	115,013	(2,862,166)	-	(2,862,166)
Business-Type Activities:							
Sewer	658,525	365,184	-	-	-	(293,341)	(293,341)
Total governmental activities	\$ 9,867,502	\$ 1,672,679	\$ 4,924,303	\$ 115,013	\$ (2,862,166)	\$ (293,341)	\$ (3,155,507)
General revenues							
Taxes:							
Ad valorem (property) taxes					707,385	157,197	864,582
Sales and use taxes					1,376,475	-	1,376,475
Other funding sources, including grants:							
Fines, forfeitures and other					483,552	-	483,552
Other state revenue not restricted to specific programs					370,646	-	370,646
Interest and investment earnings					59,639	2,182	61,821
Gain from insurance proceeds					349,119	-	349,119
Miscellaneous					57,218	-	57,218
Total general revenues					3,404,034	159,379	3,563,413
Changes in net assets					541,868	(133,962)	407,906
Net assets, beginning of year					(1,613,531)	2,481,155	867,624
Net assets, end of year					\$ (1,071,663)	\$ 2,347,193	\$ 1,275,530

See accompanying notes to financial statements.

CITY OF HARAHAH

Governmental Funds - Balance Sheet
December 31, 2005

	Major Fund Types					Total
	General	Sales tax Fund	Bond Sinking	Sales Tax Bond Reserve	Non-Major Fund Type	
ASSETS						
Cash	\$ 1,134,545	\$ 2,324	\$ 331,601	\$ 309,585	\$ 27,136	\$ 1,805,191
Receivables	4,829,062	76,269	49,072	-	-	4,954,403
Due from other funds	542,872	-	-	-	-	542,872
Prepaid insurance	32,859	-	-	-	-	32,859
Total assets	\$ 6,539,338	\$ 78,593	\$ 380,673	\$ 309,585	\$ 27,136	\$ 7,335,325
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 4,110,475	\$ -	\$ -	\$ -	\$ -	\$ 4,110,475
Notes payable	795,850	-	-	-	-	795,850
Accrued salaries	209,560	-	-	-	-	209,560
Accrued expenses	130,000	-	-	-	-	130,000
Deferred revenue	3,362,676	-	-	-	-	3,362,676
Due to other funds	-	76,269	325,000	573	1,030	402,872
Total liabilities	8,608,561	76,269	325,000	573	1,030	9,011,433
FUND BALANCES						
Reserved for prepaid insurance	32,859	-	-	-	-	32,859
Reserved for debt service	-	-	55,673	309,012	-	364,685
Unreserved and designated for capital	-	-	-	-	26,106	26,106
Unreserved and undesignated	(2,102,082)	2,324	-	-	-	(2,099,758)
Total fund balances	(2,069,223)	2,324	55,673	309,012	26,106	(1,676,108)
Total liabilities and fund balances	\$ 6,539,338	\$ 78,593	\$ 380,673	\$ 309,585	\$ 27,136	\$ 7,335,325

See accompanying notes to financial statements.

CITY OF HARRAHAN

Statement D

Reconciliation of the Governmental Funds' Balance Sheet to the Statement of Net Assets

December 31, 2005

Total fund balances – governmental funds \$ (1,676,108)

The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the Parish as a whole. The cost of those assets is allocated over their estimated useful lives (as depreciation expense) to the various programs and reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governmental funds.

Cost of capital assets	\$ 4,119,676	
Accumulated depreciation	<u>(2,843,027)</u>	1,276,649

The cost of bond issuance is reported as an expenditure in governmental funds, but is included as governmental activities in the government wide financial statement.

Bond issuance costs - 1999 bond issue	113,548	
Accumulated amortization of bond issuance costs	<u>(14,838)</u>	98,710

Change in revenue accruals – Under modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance the expenditures of the current period. Accrual basis recognition is not limited to availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net increase in revenues.

<u>3,477,187</u>	3,477,187
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Accrual basis recognition of interest expenditures

<u>(21,312)</u>	(21,312)
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All Liabilities – both current and long-term – are reported in the Statement of Net Assets.

Balances at December 31, 2005 are:

Bonds payable	(3,260,000)	
Bond discount - 1999 bond issue	44,062	
Accumulated amortization of bond discount	(5,757)	
Special Community Disaster Loan payable	(445,759)	
Capital lease payable	(340,071)	
Compensated absences	<u>(219,264)</u>	<u>(4,226,789)</u>

Net assets – governmental activities \$ (1,071,663)

See accompanying notes to financial statements.

CITY OF HARAHAN

Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types

For the year ended December 31, 2005

	Major Fund Types					Total
	General	Sales tax Fund	Sales Tax Bond Sinking	Sales Tax Bond Reserve	Non-Major Fund Type	
REVENUES						
Taxes						
Ad valorem	\$ 707,385	\$ -	\$ -	\$ -	\$ -	\$ 707,385
Sales and Use	-	1,385,600	-	-	-	1,385,600
Intergovernmental	1,969,509	-	-	-	-	1,969,509
Fees, licenses and permits	788,359	-	-	-	-	788,359
Fines and forfeitures	483,552	-	-	-	-	483,552
Charges for services	519,136	-	-	-	-	519,136
Gaming revenue	172,358	-	-	-	-	172,358
Interest income	33,968	1,922	10,083	10,138	3,528	59,639
Other	57,218	-	-	-	-	57,218
Total revenues	4,731,485	1,387,522	10,083	10,138	3,528	6,142,756
EXPENDITURES						
General government - FEMA	4,545,076	-	-	-	-	4,545,076
General government - other	983,721	-	-	-	24,237	1,007,958
Public safety - police	1,502,778	-	-	-	-	1,502,778
Public safety - fire	874,978	-	-	-	-	874,978
Public works	214,169	-	-	-	-	214,169
Sanitation	599,003	-	-	-	-	599,003
Recreation	191,902	-	-	-	-	191,902
Debt service	-	-	95,000	-	-	95,000
Redemption of bonds	-	-	192,206	-	-	192,206
Interest and fiscal charges	-	-	-	-	-	-
Capital outlay	302,918	-	-	-	226,737	529,655
Total expenditures	9,214,545	-	287,206	-	250,974	9,752,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,483,060)	1,387,522	(277,123)	10,138	(247,446)	(3,609,969)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,121,214	-	539,386	-	170,084	1,830,684
Operating transfers out	(170,084)	(1,385,600)	(275,000)	-	-	(1,830,684)
Insurance proceeds	300,000	-	-	-	-	300,000
Special Community Disaster Loan proceeds	445,759	-	-	-	-	445,759
Proceeds from capital lease	149,637	-	-	-	-	149,637
Total other financing sources (uses)	1,846,226	(1,385,600)	264,386	-	170,084	895,396
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(2,636,534)	1,922	(12,737)	10,138	(77,362)	(2,714,573)
FUND BALANCES - BEGINNING OF YEAR	567,311	402	68,410	298,874	103,468	1,038,465
FUND BALANCES - END OF YEAR	(2,069,223)	2,324	55,673	309,012	26,106	(1,676,108)

See accompanying notes to financial statements.

CITY OF HARAHAH

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

For the year ended December 31, 2005

Total net changes in fund balances – governmental funds	\$	(2,714,573)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the project.

Capital outlays	\$	380,018	
Depreciation expense		(166,653)	
Property loss due to hurricane		<u>(25,972)</u>	187,393

Bond issuance costs are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the term of the bond issue as amortization expense.

Amortization expense - bond issuance costs	\$	<u>(2,877)</u>	(2,877)
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Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount of repayments and refunding of bonds payables and capital leases. Bond discount is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the term of the bond issue as amortization expense.

Special Community Disaster Loan proceeds	\$	(445,759)	
Bond principal payments		95,000	
Amortization expense - bond premium		(1,116)	
Capital lease principal payments		<u>74,508</u>	(277,367)

Change in revenue accruals - Under modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance the expenditures of the current period. Accrual basis recognition is not limited to availability, so certain revenues not available for spending are recognized in the current year.

<u>3,334,061</u>	3,334,061
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Change in accrual basis recognition of interest expenditures

<u>2,763</u>	2,763
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In the Statement of Activities, certain operating expenses-compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick time earned exceeded the amounts used by \$26,756

<u>12,468</u>	<u>12,468</u>
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Change in net assets of governmental activities

\$	<u>541,868</u>
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See accompanying notes to financial statements.

CITY OF HARAHAH

Proprietary Fund
Statement of Net Assets

December 31, 2005

	<u>Sewer Fund</u>
ASSETS	
Cash	\$ 48,360
Accounts receivable	<u>23,721</u>
Total current assets	<u>72,081</u>
PROPERTY, PLANT, AND EQUIPMENT	
Property, plant, & equipment, at cost	5,038,006
Less: Accumulated depreciation	<u>(2,134,004)</u>
Property, plant, and equipment, net	<u>2,904,002</u>
Total assets	<u>\$ 2,976,083</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts and other payables	\$ 238,890
Loan payable	250,000
Due to other funds	<u>140,000</u>
Total liabilities	<u>628,890</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,654,002
Unrestricted	<u>(306,809)</u>
Total net assets	<u>2,347,193</u>
Total liabilities and net assets	<u>\$ 2,976,083</u>

See accompanying notes to financial statements.

CITY OF HARAHAH

Proprietary Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the year ended December 31, 2005

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for service	<u>\$ 365,184</u>
Total operating revenues	<u>365,184</u>
OPERATING EXPENSES	
Contractual services	420,555
Supplies, maintenance, and repairs	111,307
Property loss due to hurricane	13,343
Depreciation	<u>113,320</u>
Total operating expenses	<u>658,525</u>
Operating Loss	<u>(293,341)</u>
NON-OPERATING REVENUES	
Property tax revenue	157,197
Interest income	<u>2,182</u>
Total non-operating revenues	<u>159,379</u>
CHANGES IN NET ASSETS	<u>(133,962)</u>
NET ASSETS:	
BEGINNING OF YEAR	<u>2,481,155</u>
END OF YEAR	<u><u>\$ 2,347,193</u></u>

See accompanying notes to financial statements.

CITY OF HARAHAH

Proprietary Fund
Statement of Cash Flows

For the year ended December 31, 2005

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 377,887
Cash paid to suppliers of goods or services	<u>(568,313)</u>
Net cash used in operating activities	<u>(190,426)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Taxes received	<u>157,197</u>
Net cash provided by capital and related financing activities	<u>157,197</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>2,182</u>
Net cash provided by investing activities	<u>2,182</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(31,047)
CASH AND CASH EQUIVALENTS:	
BEGINNING OF YEAR	<u>79,407</u>
END OF YEAR	<u>\$ 48,360</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (293,341)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	113,320
Property loss due to hurricane	13,343
Decrease in accounts receivable	12,703
Increase in accounts payable and accrued expenses	<u>(36,451)</u>
Net cash used in operating activities	<u>\$ (190,426)</u>

See accompanying notes to financial statements.

CITY OF HARAHAH, LOUISIANA

Notes to Financial Statements

December 31, 2005

(1) Summary of Significant Accounting Policies

The City of Harahan, Louisiana (the City) was incorporated under the provisions of the State of Louisiana Lawrason Act in 1920 as a village with a population then of 500 people and an area of 2.1 square miles. It was classified as a city in 1953 with a population of over 10,000 people. The City's current population is approximately 9,900 people.

The City's financial statements include the accounts of all City operations. The City's operations include police and fire protection, waste collection, parks, recreation, public works and general administrative services. In addition, the City owns and operates a local sewer system.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

(a) Reporting Entity

The City's financial statements include operations of all activities over which the City exercises oversight responsibility. Oversight responsibility is demonstrated through financial interdependency, selection of governing authority, ability to significantly influence operations, and accountability for fiscal matters and, as such, the City is a reporting entity.

For financial reporting purposes, the City includes all funds and account groups that are controlled by or dependent on the Mayor and the City's Council.

(b) Basis of Presentation

The accompanying financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

(c) Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Fund accounting is designed to demonstrate legal compliance and to aide financial management by segregating transactions relating to certain government functions or activities.

The funds of the City are classified into two categories: governmental and proprietary. Each category in turn, is divided into separate fund types. The fund classifications and a description of each existing fund type follows:

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(1) **Summary of Significant Accounting Policies**

(c) ***Fund Accounting (Continued)***

Governmental Fund Types

Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is based upon the determination of changes in financial position, rather than net income determination. The following are the City's governmental fund types:

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

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Currently, sales tax proceeds flow through the special revenue fund, first to meet debt service requirements and then to the general fund.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is based upon the determination of net income and capital maintenance. The City's sole proprietary fund is Sewerage District No. 1 (the District), an enterprise fund.

Enterprise Fund - This fund is used to account for operations of the District where: (a) it is financed and operated in a manner similar to a private business enterprise, and (b) the periodic determination of net income is appropriate.

(d) ***Basis of Accounting/Measurement focus***

Government-Wide Financial Statements (GWFS)

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources management focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from the exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Non-Exchange Transactions".

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(1) Summary of Significant Accounting Policies

(d) *Basis of Accounting/Measurement focus (Continued)*

Program revenues include 1) charges for services provided, 2) operating grants and contributions, and 3) capital grants and contributions; program revenues reduce the cost of the function to be financed from the City's general revenues. Charges for services consist primarily of licenses, franchise fees, and sanitation services. Operating grants and contributions primarily consists of grants/taxes for the operation of the police and fire departments. Capital grants and contributions primarily consist of funding from the State for police equipment and playground equipment.

Fund Financial Statements (FFS)

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported as a separate column. The major funds reported are the General Fund, Sales Tax fund, Debt Sinking Fund, and the Debt Reserve Fund. Non-major funds are aggregated and presented in a single column.

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

Specifically, governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized as a liability when incurred. Principal and interest on general long-term debt is recognized when due.

Property taxes are recognized as revenue in the year for which taxes have been levied and collected. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned.

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

The City's proprietary fund, the District, is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred. Based on historical collection experience, no allowance for estimated uncollectible receivables is recorded.

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(1) **Summary of Significant Accounting Policies**

(d) *Basis of Accounting/Measurement focus (Continued)*

The City's proprietary fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

(e) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded, is employed by the General Fund and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As materials are subsequently received and construction contracts are executed, liabilities are recorded and the related encumbrances are liquidated.

(f) *Cash*

Cash includes amounts on hand and on deposit at financial institutions.

(g) *Capital Assets*

Land, building and improvements, furniture and equipment are recorded as expenditures in the governmental or business-type activities columns in the government wide financial statements. Capital assets are recorded at historical cost or estimate historical cost, if actual historical cost is not available. Donated assets are valued at their estimated market value on the date of donation. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000.

The cost of normal maintenance and repairs that do not add to the value for the asset or materially extend asset lives are not capitalized. Improvements are capitalized over the remaining useful lives of the assets.

Capital assets are depreciated over their estimated useful lives. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimate useful lives.

Building and improvements	10-39 years
Computer equipment	5 years
Furniture and fixtures	7-10 years
Other equipment	5-15 years
Transportation equipment	5-10 years

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(1) Summary of Significant Accounting Policies (Continued)

(h) *Property, Plant and Equipment - Proprietary Fund*

Property, plant and equipment used by the proprietary fund is stated at cost. Contributed assets are recorded at fair market value at the time received. Net interest costs are capitalized on projects during the construction period. Depreciation is provided using the straight-line method over the estimated useful lives.

(i) *Accrued Vacation*

The City's policy permits employees to accumulate a limited amount of earned but unused vacation benefits. Benefits are accrued in the period they are earned. An employee has a probationary period of 6 months before any vacation time can be earned. For all employees with 1 year of continuous service, the City allows 1 week of vacation to be earned per year. For employees with between 2 and 5 years of continuous service, the City allows 2 weeks vacation time per year. For employees with 6-10 years of employment, 3 weeks of vacation time per year is earned. For employees with 10 years or more of continuous service, 4 weeks of vacation pay is earned per year. Earned vacation time may be carried forward, not to exceed 90 days of earned vacation time. Accrued vacation pay is recorded in the general fund.

At December 31, 2005, employees of the City have accumulated and vested \$219,264 of compensated absence benefits. Of this portion \$40,348 is the current portion and is expected to be paid in 2006.

(j) *Fund Equity*

Reserved fund balance and retained earnings indicate that a portion of fund equity legally is segregated for specific purposes. Designated fund balance indicates that portion of fund equity for which the City has made tentative plans.

(k) *Use of Estimates*

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

(2) Budgetary Procedures and Budgetary Accounting

The City's procedures in establishing the budgetary data included in the general purpose financial statements are as follows:

- (1) Prior to December 1, the Mayor submits to the City's Council a proposed operating line item budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(2) Budgetary Procedures and Budgetary Accounting (Continued)

- (2) Public hearings are conducted in the City to obtain taxpayer comments.
- (3) Prior to January 1, the budget is legally adopted through passage of an appropriation ordinance by the Council.
- (4) The City Council must approve transfers of budgeted amounts between line items within a department and any revisions that alter the total expenditures of any fund or department.
- (5) Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Project-length financial plans are adopted for the Capital Project Funds and are used as an expenditure control device.
- (6) The budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). All unencumbered and unexpended appropriations lapse at year end.
- (7) As required by state law, when actual revenues within a fund are failing to meet estimated annual budgeted revenue by five percent or more, and/or actual expenditures within a fund are exceeding estimated budgeted expenditures by five percent or more, a budget amendment to reflect such changes is adopted in an open meeting.

(3) Cash

At December 31, 2005, the City has \$2,211,130 in demand deposits at two local banks.

The bank balances and collateralization for deposit at December 31, 2005 are as follows:

Total bank balances	\$ <u>2,211,130</u>
Federal deposit insurance	100,000
Pledged securities	<u>5,314,731</u>
Total collateral	\$ <u>5,414,731</u>
Collateral – excess	\$ <u>3,203,601</u>

Collateral investments are held in the name of the City by its agent and are classified as Category 1 investments under GASB 3 requirements. Louisiana Revised Statutes authorize the City to invest in United States bonds, treasury notes, certificates or other obligations of the United States of America, or time certificates of deposit of state banks organized under Louisiana laws and national banks having principal offices in the State.

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(4) Property Tax

Property taxes on real and personal property are levied by the City as an enforceable lien on the property as of January 1; the taxes are payable on December 1, and are delinquent on January 1.

The assessed value of the property is determined by the Jefferson Parish assessor's office. The assessed value at January 1, 2005, upon which the 2005 levies were based, was \$61,086,956. The combined 2005 tax rate was \$14.76 per \$1,000 of assessed valuation. Of this amount, \$12.61 was available for general operations and \$2.66 was available for sewerage operations and maintenance.

(5) Accounts Receivable

Accounts receivable at December 31, 2005 consisted of the following:

Federal Emergency Management Agency	\$ 4,509,879
Sales and use taxes	259,342
Franchise fees	93,311
Video poker	47,621
Sanitation services	35,182
Insurance proceeds	75,091
Other	<u>91,699</u>
 Total accounts receivable	 \$ <u>5,112,125</u>

(6) Property, Plant and Equipment

A summary of changes in general fixed assets is as follows:

	<u>January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2005</u>
Land, land improvement and buildings	\$ 1,513,209	202,671	(79,948)	\$ 1,635,932
Transportation equipment	1,359,801	111,137	-	1,470,938
Other equipment	661,595	208,018	-	869,613
Furniture and fixtures	29,908	-	-	29,908
Computer equipment	<u>105,456</u>	<u>7,829</u>	<u>-</u>	<u>113,285</u>
Total asset cost	3,669,969	529,655	(79,948)	4,119,676
Less: Accumulated depreciation	<u>(2,730,350)</u>	<u>(166,653)</u>	<u>53,976</u>	<u>(2,843,027)</u>
Net assets	\$ <u>939,619</u>	<u>363,002</u>	<u>(25,972)</u>	\$ <u>1,276,649</u>

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(6) Property, Plant and Equipment (Continued)

A summary of changes in proprietary fund type property, plant and equipment is as follows:

	<u>January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2005</u>
Land	\$ 7,121	-	-	\$ 7,121
Rights of way	6,606	-	-	6,606
Sewerage collection system	3,858,719	-	-	3,858,719
Sewerage treatment plant	1,175,188	-	(35,858)	1,139,330
Vehicles	26,230	-	-	26,230
Total asset cost	5,073,864	-	(35,858)	5,038,006
Less: Accumulated depreciation	<u>(2,043,199)</u>	<u>(113,320)</u>	<u>22,515</u>	<u>(2,134,004)</u>
Net assets	\$ <u>3,030,665</u>	<u>(113,320)</u>	<u>(13,343)</u>	\$ <u>2,904,002</u>

Proprietary fund type plant and equipment are depreciated using the following useful lives: Sewer collection system - 20-75 years; Sewer treatment plant - 10-50 years; and vehicles - 5 years.

(7) Changes in Long-term Obligations

A summary of changes in long-term obligations are as follows for the year ended December 31, 2005:

	<u>Governmental Funds</u>				<u>Enterprise Fund</u>	<u>Total</u>
	<u>Sales Tax Bonds</u>	<u>Special Community Disaster Loan</u>	<u>Capital Leases</u>	<u>Compensated Absences</u>	<u>Loan Payable</u>	
January 1	\$ 3,355,000	\$ -	\$ 264,942	\$ 231,732	\$ 250,000	\$ 4,101,674
Additions	-	445,759	149,637	27,880	-	623,276
Reductions	<u>(95,000)</u>	-	<u>(74,508)</u>	<u>(40,348)</u>	-	<u>(209,856)</u>
December 31	\$ <u>3,260,000</u>	\$ <u>445,759</u>	\$ <u>340,071</u>	\$ <u>219,264</u>	\$ <u>250,000</u>	\$ <u>4,515,094</u>
Due within one year	\$ <u>100,000</u>	\$ -	\$ <u>77,171</u>	\$ <u>40,348</u>	\$ <u>100,000</u>	\$ <u>317,519</u>

a) Sales Tax Bonds

Sales tax refunding and improvement bonds, payable at December 31, 2005, are the following:

\$3,750,000 1999 Sales Tax Refunding and Public Improvement Bonds due in monthly installments ranging from \$95,000 to \$275,000 including interest through June 1, 2024, at interest rates from 4.95% to 6.10%

\$ 3,260,000

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(7) Changes in Long-term Obligations

a) Sales Tax Bonds (Continued)

The City is subject to the Municipal Finance Law of the State of Louisiana, which limits the amount of net bonded debt (exclusive of revenue and special assessment bonds) the City may have outstanding to 10 percent of the assessed valuation. The statutory debt limit and the amount available for general obligation borrowing as of December 31, 2005 is \$6,353,507.

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$2,174,356 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 15,			
2006	\$ 100,000	\$ 186,920	\$ 286,920
2007	105,000	181,820	286,820
2008	110,000	176,390	286,390
2009	120,000	170,465	290,465
2010	125,000	164,033	289,033
2011-2015	730,000	706,355	1,436,355
2016-2020	960,000	460,578	1,420,578
2021-2024	<u>1,010,000</u>	<u>127,795</u>	<u>1,137,795</u>
	<u>\$ 3,260,000</u>	<u>\$ 2,174,356</u>	<u>\$ 5,434,356</u>

The indentures under which these bonds were issued provide for the establishment of debt service funds:

Commencing January 2001, a sum equal to the pro-rata amount of the interest falling due on the 1999 bonds on the next interest payment date and the pro-rata amount of the principal of the 1999 bonds falling due on the next principal payment date, together with any such additional proportionate sum as may be required to pay said principal and interest, shall be transferred from the Sales Tax Fund, monthly to the Sales Tax Bond Sinking Fund.

The City is in compliance with this debt covenant at December 31, 2005.

b) Capital Lease

During 2000, the City entered into a capital lease for the purchase of a fire truck with principal payments beginning in July 2000. Included in capital outlay expenditures are principal payments of \$47,028 and included in public safety-fire expenditures is interest payments of \$15,817 that were paid during 2005. This capital lease is secured by a security interest in the fire truck.

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(7) Changes in Long-term Obligations

b) Capital lease (Continued)

Lease terms, at an interest rate of 5.97%, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>July 15,</u>			
2006	\$ 49,836	\$ 13,009	\$ 62,845
2007	52,811	10,034	62,845
2008	55,963	6,882	62,845
2009	59,305	3,540	62,845
	<u>\$ 217,915</u>	<u>\$ 33,465</u>	<u>\$ 251,380</u>

Included in transportation equipment is \$475,604 for the fire truck subject to the capital lease. The accumulated depreciation of the equipment was \$261,582 at December 31, 2005.

During 2005, the City entered into a capital lease for the purchase of a five Crown Victoria police vehicles with principal payments beginning in October 2005. Included in capital outlay expenditures are principal payments of \$22,221 paid during 2005. Interest is due annually with each lease payment. This capital lease is secured by a security interest in the police vehicles.

Lease terms, at an interest rate of 4.95%, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>October 25,</u>			
2006	\$ 18,316	\$ 3,905	\$ 22,221
2007	19,223	2,998	22,221
2008	20,174	2,047	22,221
2009	21,173	1,048	22,221
	<u>\$ 78,886</u>	<u>\$ 9,998</u>	<u>\$ 88,884</u>

Included in transportation equipment is \$101,137 for the police vehicles subject to the capital lease. The accumulated depreciation of the equipment was \$3,371 at December 31, 2005.

During 2005, the City entered into a capital lease for the purchase of a John Deere backhoe with principal payments beginning in June 2005. Included in capital outlay expenditures are principal payments of \$5,259 and interest payments of \$1,088 that were paid during 2005. This capital lease is secured by a security interest in the backhoe.

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(7) Changes in Long-term Obligations

b) Capital lease (Continued)

Lease terms, at an interest rate of 4.75%, are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
<u>October 25,</u>					
2006	\$ 9,019	\$	1,861	\$	10,880
2007	9,457		1,423		10,880
2008	9,916		964		10,880
2009	10,398		482		10,880
2010	4,480		53		4,533
	<u>\$ 43,270</u>	\$	<u>4,783</u>	\$	<u>48,053</u>

Included in other equipment is \$48,500 for the backhoe subject to the capital lease. The accumulated depreciation of the equipment was \$5,658 at December 31, 2005.

c) Enterprise Fund Loan Payable

During 2000, the City entered into a long-term agreement with the management company administering the Sewer Fund to provide for capital and maintenance improvements. In return, the City committed the Sewer Fund to repay a maximum of \$500,000 to the management company without any stated interest. Construction services provided as of December 31, 2004 totaled \$500,000. No principal payments were made during the year ended December 31, 2005 due to Hurricane Katrina. As of December 31, 2005, the total payments due under this agreement, including imputed interest, were \$250,000, payable in installments of \$50,000 annually through 2009. Two payments of \$50,000 each are expected to be paid during the year 2006.

d) Special Community Disaster Loan Payable

During December 2005, the City entered into a long-term agreement with the Federal Emergency Management Agency under the Community Disaster Loan Act of 2005 as a result of the major disaster declaration of August 29, 2005 for Hurricane Katrina. The City has drawn down \$445,759 of the \$965,525 total funds available as of December 31, 2005. The loan is for a term of five years, which may be extended, at an interest rate of 2.69%. Simple interest accrues from the date of each disbursement. Payments of principal and interest are deferred until the end of the five year period.

(8) Equity

Designated Fund Balance - Capital Projects - This amount has been designated for future capital improvements.

CITY OF HARRAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(9) Interfund Balances

Individual fund interfund receivable and payable balances as of December 31, 2005 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 542,872	\$ -
Sales tax fund	-	76,269
Bond sinking fund	-	325,000
Bond reserve fund	-	573
Capital projects fund	-	1,030
Enterprise fund - sewerage district	-	140,000
	<u>\$ 542,872</u>	<u>\$ 542,872</u>

Interfund transfers for the year ended December 31, 2005 were as follows:

	<u>Transfers in</u>	<u>Transfers Out</u>
General fund	\$ 1,121,214	\$ 170,084
Sales tax fund	-	1,385,600
Bond sinking fund	539,386	275,000
Capital projects fund	170,084	-
	<u>\$ 1,830,684</u>	<u>\$ 1,830,684</u>

(10) Pension Plans

a.) Municipal Police Employees' Retirement Plan

Plan Description

For police personnel, the City contributes to the Municipal Police Employee' Retirement Plan, a cost sharing multi-employer defined benefit plan administered by the Municipal Police Employees' Retirement System (MPERS). MPERS provides retirement, death, and disability benefits to plan members and beneficiaries in accordance with state statutes. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Municipal Police Employees' Retirement System, 8550 United Plaza Boulevard, Suite 501, Baton Rouge, LA 70809-200.

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(10) Pension Plans

a.) Municipal Police Employees' Retirement Plan (Continued)

Funding Policy

Plan members are required to contribute 7.5% of their annual covered salary and the City is required to contribute 20.25%. Effective July 1, 2005, the City was required to contribute 16.25%. The contribution requirements of the plan members and the City are established and may be amended by the MPERS Board of Trustees in accordance with state statute. The City's contribution for the years ended December 31, 2005, 2004, and 2003 were \$72,934, \$107,317, and \$72,344, respectively, equal to the required contributions for each year.

b.) Louisiana Firefighters' Retirement Plan

Plan Description

For firefighting personnel, the City contributes to the Louisiana Firefighters' Retirement Plan, a cost sharing multiple employer defined benefit plan administered by the Louisiana Firefighters' Retirement System (LFRS). LFRS provides retirement, death, and disability benefits in accordance with state statutes. LFRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Louisiana Firefighters' Retirement System, 3100 Brentwood Drive, Baton Rouge, Louisiana, 70809.

Funding Policy

Plan members are required to contribute 8.0% of their annual salary and the City is required to contribute 24%. Effective July 1, 2005, the City was required to contribute 18%. The contribution requirements of the plan members and the City are established and may be amended by LFRS Board of Trustees in accordance with state statute. The City's contributions for the years ended December 31, 2005, 2004, and 2003 were \$44,907, \$46,091, and \$33,539, respectively, equal to the required contributions for each year.

Other City employees are not covered by a pension plan.

(11) Contingencies

The City is a defendant in several lawsuits. Damages are generally covered by insurance less deductible for risks retained by the City. The City does not expect any material adverse impact relating to these suits in excess of amounts currently accrued.

CITY OF HARAHAN, LOUISIANA

Notes to Financial Statements

December 31, 2005

(12) Notes Payable

The City issued \$795,850 of Revenue Anticipation Notes, Series 2005, in November 2005. The notes were repaid in March 2006.

(13) Natural Disaster

On August 29, 2005, Hurricane Katrina, a major hurricane, struck southeastern Louisiana and the Mississippi and Alabama Gulf Coast. The City incurred expenses of \$4,773,449 and property losses of \$39,315 (\$25,972 in governmental activities and \$13,343 in business-type activities), which it anticipates recovering from its insurance carrier and through the Federal Emergency Management Agency (FEMA).

Insurance proceeds of \$300,000 and \$75,091 were collected in 2005 and 2006, respectively. Receivables at December 31, 2005 include \$75,091 in insurance receivables. In addition to the amounts noted above, the City may recover additional insurance proceeds related to property damages; however, an amount cannot be determined at this time. Such additional proceeds will be recorded when the amounts are determinable.

Amounts in general government – FEMA expenditures include \$59,419 of unobligated FEMA grants, which are awaiting final approval and are expected to be reimbursed during 2006. Additional FEMA grants totaling approximately \$854,000 (including a reduction of \$375,091 for insurance proceeds received) are in various stages of the approval process and include amounts for debris removal, replacement or repair of damaged buildings and land improvements (Zeringue and Royland Parks, the Senior Center, the Hickory Avenue Wastewater Treatment Plant, the Recreation Center and Gymnasium, the Police Department building, and City Hall), and to cover the City's insurance deductible.

CITY OF HARRAHAN

General Fund
Budget Comparison Schedule (GAAP Basis)

For the year ended December 31, 2005

	Initial Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES				
Ad valorem taxes	\$ 710,000	\$ 715,000	\$ 707,385	\$ (7,615)
Intergovernmental	225,000	1,775,755	1,969,509	193,754
Fees, licenses and permits	749,250	752,250	788,359	36,109
Fines and forfeitures	454,500	454,500	483,552	29,052
Charges for services	569,195	569,195	519,136	(50,059)
Gaming revenue	131,000	131,000	172,358	41,358
Interest income	9,000	9,000	33,968	24,968
Other	31,000	31,000	57,218	26,218
Total revenues	2,878,945	4,437,700	4,731,485	293,785
EXPENDITURES				
General government - FEMA	-	4,545,076	4,545,076	-
General government - other	725,005	866,695	983,721	(117,026)
Public safety - police	1,280,504	1,582,809	1,502,778	80,031
Public safety - fire	757,995	814,963	874,978	(60,015)
Public works	185,006	207,520	214,169	(6,649)
Sanitation	550,000	550,000	599,003	(49,003)
Recreation	211,435	210,045	191,902	18,143
Capital outlay	-	-	302,918	(302,918)
Total expenditures	3,709,945	8,777,108	9,214,545	(437,437)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(831,000)	(4,339,408)	(4,483,060)	(143,652)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	845,000	910,000	1,121,214	211,214
Operating transfers out	(130,000)	(130,000)	(170,084)	(40,084)
Insurance proceeds	-	-	300,000	300,000
Special Community Disaster Loan proceeds	-	-	445,759	445,759
Proceeds from capital lease	-	-	149,637	149,637
Total other financing sources (uses)	715,000	780,000	1,846,526	1,066,526
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(116,000)	(3,559,408)	(2,636,534)	922,874
FUND BALANCE:				
BEGINNING OF YEAR	567,311	567,311	567,311	-
END OF YEAR	\$ 451,311	\$ (2,992,097)	\$ (2,069,223)	\$ 922,874

See accompanying independent auditors' report.

CITY OF HARAHAH

Sales Tax Fund
Budget Comparison Schedule (GAAP Basis)

For the year ended December 31, 2005

	Initial Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES				
Sales and use tax revenue	\$ 805,000	\$ 805,000	\$ 1,385,600	\$ 580,600
Interest income	-	-	1,922	1,922
Total revenues	805,000	805,000	1,387,522	582,522
EXPENDITURES				
Total expenditures	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	805,000	805,000	1,387,522	582,522
OTHER FINANCING USES				
Operating transfers out	(805,000)	(805,000)	(1,385,600)	580,600
Total other financing uses	(805,000)	(805,000)	(1,385,600)	580,600
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	1,922	1,922
FUND BALANCE:				
BEGINNING OF YEAR	157	157	402	(245)
END OF YEAR	\$ 157	\$ 157	\$ 2,324	\$ 1,677

See accompanying independent auditors' report.

CITY OF HARRAHAN

Non-Major Governmental Funds
Combining Balance Sheet - By Fund

December 31, 2005

	<u>Capital Projects</u>	<u>Capital Projects - 1999</u>	<u>Total</u>
Assets			
Cash	\$ 26,564	\$ 572	\$ 27,136
Total Assets	<u>\$ 26,564</u>	<u>\$ 572</u>	<u>\$ 27,136</u>
Liabilities and equity			
Liabilities:			
Due to other funds	\$ 1,030	\$ -	\$ 1,030
Total Liabilities	<u>1,030</u>	<u>-</u>	<u>1,030</u>
Equity:			
Fund balances:			
Unreserved - designated	<u>25,534</u>	<u>572</u>	<u>26,106</u>
Total Equity	<u>25,534</u>	<u>572</u>	<u>26,106</u>
Total liabilities and equity	<u>\$ 26,564</u>	<u>\$ 572</u>	<u>\$ 27,136</u>

See accompanying independent auditors' report.

CITY OF HARAHAH

Non-Major Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balance

For the year ended December 31, 2005

REVENUES	Capital Projects	Capital Projects	Total
Interest income	\$ 3,510	\$ 18	\$ 3,528
Total Revenues	<u>3,510</u>	<u>18</u>	<u>3,528</u>
EXPENDITURES			
General government	24,237		24,237
Capital outlay	226,737	-	226,737
Total Expenditures	<u>250,974</u>	<u>-</u>	<u>250,974</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(247,464)</u>	<u>18</u>	<u>(247,446)</u>
OTHER FINANCING SOURCES			
Operating transfers in	170,084	-	170,084
Total Other Financing Sources	<u>170,084</u>	<u>-</u>	<u>170,084</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>(77,380)</u>	<u>18</u>	<u>(77,362)</u>
FUND BALANCES:			
BEGINNING OF YEAR	<u>102,914</u>	<u>554</u>	<u>103,468</u>
END OF YEAR	<u>\$ 25,534</u>	<u>\$ 572</u>	<u>\$ 26,106</u>

See accompanying independent auditors' report.

CITY OF HARRAHAN, LOUISIANA

Schedule of Compensation Paid to City Council Members

Year ended December 31, 2005

Scott Blanchard	\$	6,120
Louis Butler		6,120
Provino Mosca (Mayor Pro Tem)		6,456
Roy Richardson		6,120
Tiffany Wilken		<u>6,120</u>
	\$	<u><u>30,936</u></u>

See accompanying independent auditors' report.

CITY OF HARRAHAN, LOUISIANA

Single Audit Reports

December 31, 2005

CITY OF HARAHAH, LOUISIANA
Harahan, Louisiana

Single Audit Reports

December 31, 2005

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and City Council
City of Harahan, Louisiana:

We have audited the financial statements of the City of Harahan, Louisiana, (the City) as of and for the year ended December 31, 2005, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order 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 over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-2.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 one instance of noncompliance and no other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

This report is intended solely for the information of the City, the City's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettelle

Metairie, Louisiana
September 7, 2006



Postlethwaite & Netterville

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and City Council
City of Harahan, Louisiana:

Compliance

We have audited the compliance of the City of Harahan, Louisiana, (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in internal control over financial reporting that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance 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. We believe that the reportable condition referred to above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended December 31, 2005, and have issued our report thereon dated September 7, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the City, the City's management and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Metairie, Louisiana
September 7, 2006

CITY OF HARRAHAN, LOUISIANA
Harahan, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2005

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Passed through the State of Louisiana:		
United States Department of Homeland Security Federal Emergency Management Agency – Public Assistance Grants	97.036	\$ <u>5,219,208</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HARAHAH, LOUISIANA
Harahan, Louisiana

Notes to Schedule of Expenditures of Federal Awards

December 31, 2005

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the City of Harahan, Louisiana, (the City). The City's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2005. All federal awards received from federal agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the City's financial statements for the year ended December 31, 2005.

(3) Relationship to Financial Statements

Federal awards are included in the financial statements of the City as follows:

Operating Grants and Contributions	\$ 4,714,030
Special Community Disaster Loan payable	<u>445,759</u>
	5,159,789
Unobligated Grants awaiting approval	<u>59,419</u>
Total Expenditures of Federal Awards	<u>5,219,208</u>

Unobligated grants are awaiting final approval and are not recorded as revenue in the City's financial statements.

CITY OF HARAHAN, LOUISIANA
Harahan, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2005

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: unqualified opinion
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: yes; Material weaknesses: no
- (c) Noncompliance which is material to the financial statements: no
- (d) Reportable conditions in internal control over major programs: yes; Material weaknesses: no
- (e) The type of report issued on compliance for major programs: unqualified opinion
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes
- (g) Major program:

United States Department of Homeland Security, Federal Emergency Management Agency –
Public Assistance Grants - passed through the State of Louisiana (CFDA number 97.036)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

Finding 2005-1 Departmental Budgets

- Criteria: LSA-RS 39:1311 provides that the adopted budget and duly authorized amendments shall constitute the authority of the political subdivision to incur liabilities and authorized expenditures.
- Condition: The general government – other, public safety – fire, and sanitation departments of the City expended \$117,026, \$60,015, and \$49,003 in excess of their respective budgets.
- Effect: The City expended funds not authorized by its legally adopted budget.
- Recommendation: Budget amendments should be adopted when changed operations or conditions require that expenditure will exceed budget.
- Management Response: The funds expended in excess of budget were related to additional expenses resulting from Hurricane Katrina that were not reimbursed by the Federal Emergency Management Agency, which could not be accurately budgeted until after year end.

CITY OF HARAHAH, LOUISIANA
Harahan, Louisiana

Schedule of Findings and Questioned Costs, Continued

Year ended December 31, 2005

Finding 2005-2 Police Overtime

Criteria: All overtime should be approved by the appropriate supervisor to provide adequate segregation of duties.

Condition: Police Captains approved their own overtime.

Effect: Police Captains could approve overtime that they do not actually work.

Recommendation: All police overtime for Captains should be approved by the Chief of Police.

Management Response: The Police Chief will approve all timesheets for Captains on an ongoing basis.

(3) Findings and Questioned Costs relating to Federal Awards:

Finding 2005-3 Suspension and Debarment

Criteria: In accordance with A-102 Common Rule, contractors receiving individual awards for \$100,000 or more must certify that the organization and its principals are not suspended or debarred.

Condition: No certifications were obtained from contractors for procurement contracts greater than \$100,000.

Questioned Costs: Questioned costs, if any, cannot be determined.

Cause: City personnel were not aware of the requirement.

Effect: The City is in violation of the provisions of A-102 Common Rule.

Recommendation: The City should comply with the provisions of A-102 Common Rule.

Management Response: The City was not aware of the requirement, but will comply with all applicable provisions of A-102 Common Rule for any future contracts.

CITY OF HARRAHAN, LOUISIANA
Harahan, Louisiana

Summary Schedule of Prior Audit Findings

Finding 2004-1 Budget Requirement

Criteria: LSA-RS 39:1310 provides that total actual expenditures exceeding the total budgeted expenditures by five percent or more.

Condition: Total expenditures of \$3,978,753 exceeded the budgeted expenditures of \$3,698,221 by 8%.

Questioned Cost: None.

Effect: The City expended funds not authorized by its legally adopted budget.

Recommendation: Budget amendments should be adopted when changed operations or conditions require that total expenditures will exceed budget.

Status: The finding is not resolved as the City has a budget compliance finding (2005-1) for the year ended 2005.

Finding 2004-2 Public Bid Requirement

Criteria: LSA-RS 38:212.1 requires that purchases of materials and supplies greater than \$20,000 be advertised and let by contract to the lowest bidder according to specifications.

Condition: During the year ended December 31, 2004, the City purchased \$25,375 of playground equipment which was not advertised.

Questioned Cost: None.

Effect: The City may not have obtained the lowest price for the specified equipment.

Recommendation: We recommend that the City monitor capital purchases to ensure compliance with the applicable state bid laws.

Status: The City contacted the Attorney General's office to inquire about the bid requirements relating to the playground equipment. The representative at the Attorney General's office indicated to the City that the project was public works and not subject to the bid requirements. Upon further information, the Attorney General indicated that the equipment purchase should have been advertised and bid. No instances of noncompliance were noted for 2005.

CITY OF HARAHAN, LOUISIANA
Harahan, Louisiana

Summary Schedule of Prior Audit Findings, Continued

Finding 2004-3 Bank reconciliations

Criteria: All bank statements and bank reconciliations of the City should be reviewed by the City Bookkeeper.

Condition: The police department maintains two bank accounts for seized assets or funds. These accounts are reconciled by employees of the Police department. On an annual basis, the December bank statement and account reconciliation is provided to the City Bookkeeper for adjusting to the general ledger.

Questioned Cost: None.

Effect: The current internal control structure provides limited oversight and provides the opportunity for fraud to occur.

Recommendation: We recommend that bank statements for these accounts be received each month by the City Bookkeeper. The City Bookkeeper should also receive a copy of the bank reconciliation each month.

Status: Resolved.

Finding 2003-2 Departmental Budgets

Criteria: LSA-RS 39:1311 provides that the adopted budget and duly authorized amendments shall constitute the authority of the political subdivision to incur liabilities and authorized expenditures.

Condition: The Public safety police and sanitation departments of the City expended \$87,081 and \$52,979 in excess of their respective budgets.

Questioned Cost: None.

Effect: The City expended funds not authorized by its legally adopted budget.

Recommendation: Budget amendments should be adopted when changed operations or conditions require that expenditure will exceed budget.

Management Response: The City monitored the department expenditures more closely during the year and submitted budget amendments more timely during the year.

Status: The finding is not resolved as the City has a budget compliance finding (2005-1) for the year ended 2005.