

## CITY OF BASTROP, LOUISIANA

## FINANCIAL REPORT

June 30, 2005

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 1/25/06

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# HILL, INZINA & COMPANY

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

The Honorable Clarence W. Hawkins, Mayor,  
and Members of the Board of Aldermen  
City of Bastrop, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Bastrop, Louisiana (the "City"), as of and for the year ended June 30, 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 opinions on these financial statements based on our audit.

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

As discussed in Note 7 to the financial statements, management has not recorded capital assets of the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City as of June 30, 2005, and the changes in financial position thereof for the year then ended.

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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, of the business-type activities and each major fund 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 October 21, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Management's discussion and analysis and the budgetary comparison schedules, presented as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the required supplementary information and express no opinion on it. The other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

s\HILL, INZINA & CO.

October 21, 2005

REQUIRED SUPPLEMENTARY INFORMATION (Part 1 of 2)

CITY OF BASTROP, LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Year Ended June 30, 2005

As management of City of Bastrop, Louisiana (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. This discussion and analysis of management is designed to provide an objective and easy-to-read analysis of the City's financial activities based on currently known facts, decisions, or conditions. It is intended to provide readers with a broad overview of the City's finances. It is also intended to provide readers with an analysis of the short-term and long-term activities of the City based on information presented in the financial report and fiscal policies that have been adopted by the City. Specifically, this section is designed to assist the readers in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify any material deviations from the financial plan (the approved budget), and identify individual issues or concerns of individual funds.

As with other sections of this financial report, the information contained within this discussion and analysis of management should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and supplementary information that are provided in addition to this discussion and analysis of management.

Overview of the Financial Statements

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

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to financial statements.

In addition to the basic financial statements, the City also includes in this report additional information to supplement the basic financial statements.

1. Government-wide financial statements

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

The statement of net assets presents information on all of the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The difference between assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or weakening. Evaluation of the overall economic health of the City would extend to other nonfinancial factors in addition to the financial information provided in this report.

The statement of activities presents information detailing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of this statement is to show the financial reliance of the City's distinct activities or functions on revenues provided by the citizenry of the City.

The government-wide financial statements report governmental activities of the City that are principally supported by taxes and intergovernmental revenues. Governmental activities include general administrative services, public safety, public works, sanitation, and public improvements.

## 2. Fund financial statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City as a whole with major funds being separately reported.

The City has two types of funds:

1. Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the fiscal year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.
2. The proprietary fund is reported in the fund financial statements and generally reports services for which the City charges customers a fee. The fund essentially encompasses the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City. Proprietary fund financial statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail. (See Note 10 in the basic financial statements.)

### 3. Notes to financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

#### Government-Wide Financial Analysis

The following provides a summary of the net assets (in thousands of dollars) of the City as of June 30:

|  | Governmental<br>Activities |             | Business-Type<br>Activities |        | Totals      |             |
|--|----------------------------|-------------|-----------------------------|--------|-------------|-------------|
|  | 2005                       | 2004        | 2005                        | 2004   | 2005        | 2004        |
| Current and other assets                           | \$ 5,333                   | \$ 4,996    | \$ -                        | \$ 383 | \$ 5,333    | \$ 5,379    |
| Capital assets                                     | -                          | -           | -                           | 521    | -           | 521         |
| Total assets                                       | \$ 5,333                   | \$ 4,996    | \$ -                        | \$ 904 | \$ 5,333    | \$ 5,900    |
| Other liabilities                                  | \$ 488                     | \$ 674      | \$ -                        | \$ -   | \$ 488      | \$ 674      |
| Long-term liabilities                              | 9,433                      | 9,797       | -                           | -      | 9,433       | 9,797       |
| Total liabilities                                  | \$ 9,921                   | \$10,471    | \$ -                        | \$ -   | \$ 9,921    | \$10,471    |
| Net assets:  |                            |             |                             |        |             |             |
| Invested in capital assets,<br>net of related debt | \$ -                       | \$ -        | \$ -                        | \$ 521 | \$ -        | \$ 521      |
| Restricted   | 2,553                      | 2,797       | -                           | -      | 2,553       | 2,797       |
| Unrestricted (deficit)                             | ( 7,141)                   | ( 8,272)    | -                           | 383    | ( 7,141)    | ( 7,889)    |
| Total net assets                                   | \$ ( 4,588)                | \$ ( 5,475) | \$ -                        | \$ 904 | \$ ( 4,588) | \$ ( 4,571) |

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. All of the positive balances of net assets of the governmental activities represent resources that are subject to external restrictions as to how they may be used.

No capital assets or depreciation were recorded in the governmental activities of the government-wide financial statements as additional time is needed to complete the inventory, however, long-term liabilities associated with these capital assets was recording resulting in the governmental activities having deficit unrestricted net assets. Recording of the capital assets in the future will increase the assets, net assets, and expenses of the governmental activities.

The following summarizes the City's net asset changes (in thousands of dollars) between the two years ended June 30, 2005 and 2004:

|   | Governmental     |                  | Business-Type   |                 | Totals           |                  |
|---|------------------|------------------|-----------------|-----------------|------------------|------------------|
|   | Activities       |                  | Activities      |                 |                  |                  |
|   | <u>2005</u>      | <u>2004</u>      | <u>2005</u>     | <u>2004</u>     | <u>2005</u>      | <u>2004</u>      |
| <b>Revenues:</b>                        |                  |                  |                 |                 |                  |                  |
| <b>Program revenues:</b>                |                  |                  |                 |                 |                  |                  |
| Charges for services                    | \$ 1,941         | \$ 1,949         | \$ -            | \$ -            | \$ 1,941         | \$ 1,949         |
| Operating grants and contributions      | 626              | 469              | -               | -               | 626              | 469              |
| Capital grants and contributions        | 822              | 844              | 350             | -               | 1,172            | 844              |
| <b>General revenues:</b>                |                  |                  |                 |                 |                  |                  |
| Taxes                                   | 8,522            | 7,824            | -               | -               | 8,522            | 7,824            |
| Intergovernmental                       | 471              | 796              | -               | -               | 471              | 796              |
| Unrestricted investment earnings        | 96               | 44               | 7               | 5               | 103              | 49               |
| Miscellaneous                           | 205              | 167              | -               | -               | 205              | 167              |
| Total revenues                          | <u>\$ 12,683</u> | <u>\$ 12,093</u> | <u>\$ 357</u>   | <u>\$ 5</u>     | <u>\$ 13,040</u> | <u>\$ 12,098</u> |
| <b>Expenses:</b>                        |                  |                  |                 |                 |                  |                  |
| General government                      | \$ 2,596         | \$ 2,738         | \$ -            | \$ -            | \$ 2,596         | \$ 2,738         |
| Public safety                           | 5,787            | 5,150            | -               | -               | 5,787            | 5,150            |
| Public works                            | 1,805            | 1,938            | -               | -               | 1,805            | 1,938            |
| Sanitation                              | 1,581            | 2,547            | -               | -               | 1,581            | 2,547            |
| Debt service                            | 385              | 396              | -               | -               | 385              | 396              |
| Operating                               | -                | -                | 58              | 30              | 58               | 30               |
| Total expenses                          | <u>\$ 12,154</u> | <u>\$ 12,769</u> | <u>\$ 58</u>    | <u>\$ 30</u>    | <u>\$ 12,212</u> | <u>\$ 12,799</u> |
| Excess (deficiency) before special item | \$ 529           | \$ ( 676)        | \$ 299          | \$ ( 25)        | \$ 828           | \$ ( 701)        |
| Special item                            | <u>358</u>       | <u>-</u>         | <u>( 358)</u>   | <u>-</u>        | <u>-</u>         | <u>-</u>         |
| Increase (decrease) in net assets       | <u>\$ 887</u>    | <u>\$ ( 676)</u> | <u>\$ ( 59)</u> | <u>\$ ( 25)</u> | <u>\$ 828</u>    | <u>\$ ( 701)</u> |

The City's total revenues increased by \$590,000 while the total cost of all programs and services decreased by \$615,000. The majority of the revenue increase was attributable to the receipt of more taxes. 47.6% of the total current year's expenses related to the provision of public safety (fire and police services).

General revenues are those available for the City to pay for the governmental activities. For the year ended June 30, 2005, taxes were the largest general revenue source for the City and charges for services were second. Sales taxes were the largest tax revenue source.

Program revenues derive directly from the program itself or from parties outside the City's taxpayers or citizenry. As a whole, they reduce the cost of the function to be financed from the City's general revenues.

#### Business-Type Activities

Capital grants and contributions of \$350,000 were received by the business-type activities during the year ended June 30, 2005 and were used to acquire a building. Operating expenses of \$58,041 for the year ended June 30, 2005 increased from the previous year's total of \$30,245 by \$27,796 largely due to the recording of bad debt expense.

#### Financial Analysis of Governmental Funds

As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$4,887,146, an increase of \$519,950 from \$4,367,196 as of June 30, 2004. The increase resulted from more revenues and less expenditures for the year ended June 30, 2005 than for the year ended June 30, 2004. Reserved fund balances from June 30, 2004 to June 30, 2005 increased from \$4,250,526 to \$4,301,021.

#### Budgetary Highlights

The City made amendments to its General Fund and Sewer Use Fee Fund budgets, but actual revenues and other financing sources of the Sewer Use Fee Fund (special revenue fund) of \$1,141,901 were less than budgeted revenues and other financing sources of \$1,268,510 for the year ended June 30, 2005 by \$126,249 or 9.96%. In the same fund, actual expenditures and other financing uses of \$1,350,268 exceeded budgeted expenditures and other financing uses of \$1,153,917 for the year ended June 30, 2005 by \$196,351 or 17.02%. The significant amount of the unfavorable revenues and other financing sources variance resulted from budgeted operating transfers not being received by the Sewer Use Fee Fund while the significant unfavorable expenditures and financing uses variance resulted from inadequate appropriations for maintenance and supplies. No budget was adopted for the year ended June 30, 2005 for the Sales Tax Fund (special revenue fund).

#### Capital Assets and Debt Administration

As discussed previously, capital assets nor depreciation were recorded in the governmental activities of the government-wide financial statements.

As of June 30, 2005, the City had long-term liabilities comprised of the following:

|                                 |                         |
|---------------------------------|-------------------------|
| Certificates of indebtedness    | \$ 367,315              |
| Capital leases                  | 49,515                  |
| Compensated absences            | 219,861                 |
| Pension liabilities             | 466,489                 |
| Sewer revenue bonds             | <u>8,330,000</u>        |
| <br>Total long-term liabilities | <br><u>\$ 9,433,180</u> |

All debt service requirements of the current fiscal year were timely met. The majority of long-term debt liabilities for the year ended June 30, 2005 were for pension liabilities while the majority of retirements were made for sewer revenue bonds.

#### Economic Factor's and Next Year's Budget

The following factors were considered in preparing the City's budget for the fiscal year ending June 30, 2006:

In addition to the increases in the required employer contributions to each of the three retirement systems covering City employees, as mentioned in last year's audit report, the City is faced with repaying accrued liabilities to the Firefighters' Retirement System of Louisiana (the "System").

The System mandated an increase in employer contributions to 21% two years ago. As the increase was the subject of litigation, municipalities were given the option of continuing to pay the *lower 9% rate pending the outcome in the courts.*

The municipalities' position, favoring the lower rate, was initially upheld, although the System's position prevailed upon appeal. The City which had opted to pay the lower rate, was then required to pay the difference, plus interest, over a five-year period. The current budget reflects and annual debt service expenditure of \$30,916 to service this liability.

Ad valorem tax receipts are projected to remain stable from the previous fiscal year, and have been budgeted at \$3,000,000.

Sales tax revenues are also expected to be unchanged, for the short-term, although new retail expansion within the next year should cause these revenues to rise in the year ending June 30, 2007.

As was the case in recent years, no capital improvements were budgeted as funds are unavailable.

#### Requests for Information

This financial report is designed to provide a general overview of the City's financial picture for all those with an interest in the City's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the City Clerk, P.O. Box 431, Bastrop, Louisiana 71221-0431.

**BASIC FINANCIAL STATEMENTS**

CITY OF BASTROP, LOUISIANA

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

June 30, 2005

ASSETS

|                            |                     |
|----------------------------|---------------------|
| Cash                       | \$ 747,603          |
| Pooled deposits            | 1,485,551           |
| Receivables:               |                     |
| Accounts                   | 151,075             |
| Taxes                      | 72,247              |
| Inventory                  | 69,520              |
| Due from other governments | 165,205             |
| Restricted assets:         |                     |
| Cash                       | 6,381               |
| Pooled deposits            | 2,548,168           |
| Loans receivable           | <u>86,868</u>       |
| Total assets               | <u>\$ 5,332,618</u> |

(continued)

CITY OF BASTROP, LOUISIANA  
STATEMENT OF NET ASSETS (Continued)  
June 30, 2005

LIABILITIES

|                                |                     |
|--------------------------------|---------------------|
| Accounts payable               | \$ 352,377          |
| Deferred revenue               | 6,122               |
| Accrued salaries               | 51,935              |
| Refund due                     | 33,921              |
| Payable from restricted assets | 1,117               |
| Accrued interest               | 42,695              |
| Long-term liabilities:         |                     |
| Due within one year            | 795,400             |
| Due in more than one year      | <u>8,637,780</u>    |
| Total liabilities              | <u>\$ 9,921,347</u> |

NET ASSETS

|                                      |                         |
|--------------------------------------|-------------------------|
| Restricted for debt service          | \$ 1,008,810            |
| Restricted for construction          | 1,543,686               |
| Unrestricted (deficit)               | <u>( 7,141,225)</u>     |
| Total net assets                     | <u>\$ ( 4,588,729)</u>  |
| <br>Total liabilities and net assets | <br><u>\$ 5,332,618</u> |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

STATEMENT OF ACTIVITIES  
As of and for the Year Ended June 30, 2005

|                               | <u>Expenses</u>      | <u>Charges for<br/>Services</u> | <u>Program Revenues</u><br><u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |
|-------------------------------|----------------------|---------------------------------|--|---|
| Functions/Programs:           |                      |                                 |  |   |
| Governmental activities:      |                      |                                 |  |   |
| Current:                      |                      |                                 |  |   |
| General government            | \$ 2,595,633         | \$ 661,737                      | \$ 405,864   | \$ 98,984                                       |
| Public safety                 | 5,786,516            | 195,792                         | 220,531  | 672,686   |
| Public works                  | 1,804,862            | 22,718                          | -  | 49,893  |
| Sanitation                    | 1,581,269            | 1,060,453                       | -  | -   |
| Debt service:                 |                      |                                 |  |   |
| Interest and fiscal charges   | <u>385,404</u>       | -                               | -  | -   |
| Total governmental activities | \$ 12,153,684        | \$ 1,940,700                    | \$ 626,395   | \$ 821,563                                      |
| Business-type activities:     |                      |                                 |  |   |
| Revolving loan                | <u>58,041</u>        | -                               | -  | <u>350,000</u>                                  |
| Total government              | <u>\$ 12,211,725</u> | <u>\$ 1,940,700</u>             | <u>\$ 626,395</u>  | <u>\$ 1,171,563</u>                             |

General revenues:  
Taxes  
Intergovernmental  
Unrestricted investment earnings  
Miscellaneous  
Special item:  
Residual equity transfer in (out)  
Total general revenues and special item

Changes in net assets

Net assets - beginning

Net assets - ending

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

| <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Totals</u>         |
|------------------------------------|-------------------------------------|-----------------------|
| \$( 1,429,048)                     |                                     | \$( 1,429,048)        |
| ( 4,697,507)                       |                                     | ( 4,697,507)          |
| ( 1,732,251)                       |                                     | ( 1,732,251)          |
| ( 520,816)                         |                                     | ( 520,816)            |
| <u>( 385,404)</u>                  |                                     | <u>( 385,404)</u>     |
| \$( 8,765,026)                     |                                     | \$( 8,765,026)        |
| <u>-</u>                           | <u>\$ 291,959</u>                   | <u>291,959</u>        |
| <u>\$( 8,765,026)</u>              | <u>\$ 291,959</u>                   | <u>\$( 8,473,067)</u> |
| \$ 8,521,564                       | \$ -                                | \$ 8,521,564          |
| 470,688                            | -                                   | 470,688               |
| 96,221                             | 7,004                               | 103,225               |
| 204,824                            | -                                   | 204,824               |
| <u>358,228</u>                     | <u>( 358,228)</u>                   | <u>-</u>              |
| <u>\$ 9,651,525</u>                | <u>\$( 351,224)</u>                 | <u>\$ 9,300,301</u>   |
| \$ 886,499                         | \$( 59,265)                         | \$ 827,234            |
| <u>( 5,475,228)</u>                | <u>59,265</u>                       | <u>( 5,415,963)</u>   |
| <u>\$( 4,588,729)</u>              | <u>\$ -</u>                         | <u>\$( 4,588,729)</u> |

CITY OF BASTROP, LOUISIANA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2005

|                            | <u>General</u><br><u>Fund</u> | <u>Sewer</u><br><u>Use Fee</u><br><u>Fund</u> | <u>Sales</u><br><u>Tax</u><br><u>Fund</u> | <u>Totals</u>           |
|----------------------------|-------------------------------|---|---|-------------------------|
| <b>ASSETS</b>              |                               |   |   |                         |
| Cash                       | \$ 368,643                    | \$ 101,107                                    | \$ 277,853                                | \$ 747,603              |
| Pooled deposits            | 325,540                       | 1,160,011                                     | -   | 1,485,551               |
| Receivables:               |                               |   |   |                         |
| Accounts                   | -                             | 151,075                                       | -   | 151,075                 |
| Taxes                      | 70,479                        | -   | 1,768                                     | 72,247                  |
| Inventory                  | 69,520                        | -   | -   | 69,520                  |
| Due from other governments | 165,205                       | -   | -   | 165,205                 |
| Due from other funds       | -                             | 150,000                                       | -   | 150,000                 |
| Restricted assets:         |                               |   |   |                         |
| Cash                       | 2,201                         | 4,180   | -   | 6,381                   |
| Pooled deposits            | -                             | 2,548,168                                     | -   | 2,548,168               |
| Loans receivable           | <u>86,868</u>                 | <u>-</u>                                      | <u>-</u>                                  | <u>86,868</u>           |
| <br>Total assets           | <br><u>\$ 1,088,456</u>       | <br><u>\$ 4,114,541</u>                       | <br><u>\$ 279,621</u>                     | <br><u>\$ 5,482,618</u> |

(continued)

CITY OF BASTROP, LOUISIANA

BALANCE SHEET - GOVERNMENTAL FUNDS (Continued)  
June 30, 2005

| LIABILITIES AND<br>FUND BALANCES                | <u>General<br/>Fund</u> | <u>Sewer<br/>Use Fee<br/>Fund</u> | <u>Sales<br/>Tax<br/>Fund</u> | <u>Totals</u>       |
|---|-------------------------|-----------------------------------|-------------------------------|---------------------|
| Liabilities:                                    |                         |                                   |                               |                     |
| Accounts payable                                | \$ 188,632              | \$ 161,716                        | \$ 2,029                      | \$ 352,377          |
| Deferred revenue                                | 6,122                   | -                                 | -                             | 6,122               |
| Accrued salaries                                | 51,935                  | -                                 | -                             | 51,935              |
| Due to other funds                              | 150,000                 | -                                 | -                             | 150,000             |
| Refund due                                      | 33,921                  | -                                 | -                             | 33,921              |
| Payable from restricted asset                   | 1,117                   | -                                 | -                             | 1,117               |
| Total liabilities                               | <u>\$ 431,727</u>       | <u>\$ 161,716</u>                 | <u>\$ 2,029</u>               | <u>\$ 595,472</u>   |
| Fund balances:                                  |                         |                                   |                               |                     |
| Reserved for net restricted asset               | \$ 1,084                | \$ -                              | \$ -                          | \$ 1,084            |
| Reserved for inventory                          | 69,520                  | -                                 | -                             | 69,520              |
| Reserved for sewage system                      | -                       | 3,952,825                         | -                             | 3,952,825           |
| Reserved for street and related<br>improvements | -                       | -                                 | 277,592                       | 277,592             |
| Unreserved and undesignated                     | 586,125                 | -                                 | -                             | 586,125             |
| Total fund balances                             | <u>\$ 656,729</u>       | <u>\$ 3,952,825</u>               | <u>\$ 277,592</u>             | <u>\$ 4,887,146</u> |
| Total liabilities and fund balances             | <u>\$ 1,088,456</u>     | <u>\$ 4,114,541</u>               | <u>\$ 279,621</u>             | <u>\$ 5,482,618</u> |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2005

|  | General<br><u>Fund</u> | Sewer<br>Use Fee<br><u>Fund</u> | Sales<br>Tax<br><u>Fund</u> | Capital<br>Projects<br><u>Fund</u> | <u>Totals</u>         |
|--|------------------------|---------------------------------|-----------------------------|------------------------------------|-----------------------|
| <b>Revenues:</b>                                     |                        |                                 |                             |                                    |                       |
| Taxes  | \$ 8,216,177           | \$ -                            | \$ 305,387                  | \$ -                               | \$ 8,521,564          |
| Licenses and permits                                 | 481,729                | -                               | -                           | -                                  | 481,729               |
| Intergovernmental                                    | 1,734,850              | -                               | -                           | 49,893                             | 1,784,743             |
| Fees, charges, and<br>commissions for services       | 234,796                | 1,060,453                       | -                           | -                                  | 1,295,249             |
| Fines and forfeitures                                | 163,378                | -                               | -                           | -                                  | 163,378               |
| Interest and miscellaneous                           | 218,735                | 81,448                          | 1,206                       | -                                  | 301,389               |
| Total revenues                                       | <u>\$ 11,049,665</u>   | <u>\$1,141,901</u>              | <u>\$ 306,593</u>           | <u>\$ 49,893</u>                   | <u>\$ 12,548,052</u>  |
| <b>Expenditures:</b>                                 |                        |                                 |                             |                                    |                       |
| Current:   |                        |                                 |                             |                                    |                       |
| General government                                   | \$ 2,413,020           | \$ -                            | \$ -                        | \$ -                               | \$ 2,413,020          |
| Public safety  | 5,016,770              | -                               | -                           | -                                  | 5,016,770             |
| Public works   | 1,767,026              | -                               | 29,001                      | -                                  | 1,796,027             |
| Sanitation   | 950,593                | 543,460                         | -                           | 82,453                             | 1,576,506             |
| Debt service:  |                        |                                 |                             |                                    |                       |
| Principal  | 1,606,813              | 440,000                         | -                           | -                                  | 2,046,813             |
| Interest and fiscal<br>charges                       | 64,047                 | 323,498                         | -                           | -                                  | 387,545               |
| Capital outlay                                       | 812,847                | 4,878                           | -                           | -                                  | 817,725               |
| Total expenditures                                   | <u>\$ 12,631,116</u>   | <u>\$1,311,836</u>              | <u>\$ 29,001</u>            | <u>\$ 82,453</u>                   | <u>\$ 14,054,406</u>  |
| Excess (deficiency) of<br>revenues over expenditures | <u>\$( 1,581,451)</u>  | <u>\$( 169,935)</u>             | <u>\$ 277,592</u>           | <u>\$( 32,560)</u>                 | <u>\$( 1,506,354)</u> |

(continued)

CITY OF BASTROP, LOUISIANA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)

As of and for the Year Ended June 30, 2005

|   | <u>General<br/>Fund</u> | <u>Sewer<br/>Use Fee<br/>Fund</u> | <u>Sales<br/>Tax<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Totals</u>       |
|---|-------------------------|-----------------------------------|-------------------------------|--------------------------------------|---------------------|
| Other financing sources<br>(uses):      |                         |                                   |                               |                                      |                     |
| Operating transfers in (out)            | \$ 5,872                | \$( 38,432)                       | \$ -                          | \$ 32,560                            | \$ -                |
| Revenue anticipation note<br>proceeds   | 1,500,000               | -                                 | -                             | -                                    | 1,500,000           |
| Long-term debt proceeds                 | <u>168,076</u>          | <u>-</u>                          | <u>-</u>                      | <u>-</u>                             | <u>168,076</u>      |
| Total other financing<br>sources (uses) | <u>\$ 1,673,948</u>     | <u>\$( 38,432)</u>                | <u>\$ -</u>                   | <u>\$ 32,560</u>                     | <u>\$ 1,668,076</u> |
| Special item:                           |                         |                                   |                               |                                      |                     |
| Residual equity transfer in             | <u>\$ 358,228</u>       | <u>\$ -</u>                       | <u>\$ -</u>                   | <u>\$ -</u>                          | <u>\$ 358,228</u>   |
| Net changes in fund balances            | \$ 450,725              | \$( 208,367)                      | \$ 277,592                    | \$ -                                 | \$ 519,950          |
| Fund balances - beginning               | <u>206,004</u>          | <u>4,161,192</u>                  | <u>-</u>                      | <u>-</u>                             | <u>4,367,196</u>    |
| Fund balances - ending                  | <u>\$ 656,729</u>       | <u>\$ 3,952,825</u>               | <u>\$ 277,592</u>             | <u>\$ -</u>                          | <u>\$ 4,887,146</u> |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2005

|   |                      |
|---|----------------------|
| Total fund balances - governmental funds balance sheet  | \$ 4,887,146         |
| Amounts reported for governmental activities in statement of net assets are different because:                                |                      |
| Bonds payable and accrued interest are not due and payable in the current period and therefore are not reported in the funds. | <u>(9,475,875)</u>   |
| Total net assets of governmental activities - government-wide statement of net assets   | <u>\$(4,588,729)</u> |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

RECONCILIATION OF GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

June 30, 2005

Net changes in fund balances - governmental funds \$ 519,950

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

Government funds report debt proceeds as current financial resources.  
*However, in the statement of activities, debt proceeds increase long-term  
liabilities. This is the amount of current debt proceeds.* ( 1,668,076)

Governmental funds report principal and interest payments on long-term  
obligations as an expense when actually paid. However, in the statement of  
activities, interest is expensed as accrued and principal payments are reported  
as reductions of the related debt. This is the amount related to these reporting  
differences. 2,034,625

Changes in net assets of governmental activities - government-wide  
statement of activities \$ ( 886,499)

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS - PROPRIETARY FUND - REVOLVING LOAN FUND

As of and for the Year Ended June 30, 2005

|   |                     |
|---|---------------------|
| Operating expenses:                     |                     |
| Depreciation                            | \$ 26,008           |
| Bad debts                               | 28,536              |
| Other                                   | <u>3,497</u>        |
| Total operating expenses                | <u>\$ 58,041</u>    |
| <br>                                    |                     |
| Operating income (loss)                 | <u>\$( 58,041)</u>  |
| <br>                                    |                     |
| Non-operating revenues (expenses):      |                     |
| Interest and miscellaneous              | \$ 7,004            |
| <br>                                    |                     |
| Intergovernmental grant                 | <u>350,000</u>      |
| Total non-operating revenues (expenses) | <u>\$ 357,004</u>   |
| <br>                                    |                     |
| Special item:                           |                     |
| Residual equity transfer in (out)       | <u>\$( 358,228)</u> |
| <br>                                    |                     |
| Change in net assets                    | \$( 59,265)         |
| <br>                                    |                     |
| Net assets - beginning                  | <u>59,265</u>       |
| <br>                                    |                     |
| Net assets - ending                     | <u><u>\$ -</u></u>  |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - REVOLVING LOAN FUND  
As of and for the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

|   |    |               |
|---|----|---------------|
| Receipts from borrowers                   | \$ | 9,690         |
| Payments to suppliers for services        | (  | 3,497)        |
| Internal activity                         |    | <u>6,244</u>  |
| Net cash provided by operating activities | \$ | <u>12,437</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

|   |    |                 |
|---|----|-----------------|
| Interest and miscellaneous                | \$ | 7,004           |
| Intergovernmental grant                   |    | 350,000         |
| Sale of investments                       |    | 10,000          |
| Purchase of investments                   | (  | <u>48,372</u> ) |
| Net cash provided by investing activities | \$ | <u>318,632</u>  |

CASH FLOWS FROM (USED BY) CAPITAL AND RELATED  
FINANCING ACTIVITIES

|                                 |    |                  |
|---------------------------------|----|------------------|
| Purchase of capital assets      | \$ | <u>(350,000)</u> |
| Net increase (decrease) in cash | \$ | (18,931)         |
| Cash - beginning                |    | 69,512           |
| Transfer                        | (  | <u>50,581</u> )  |
| Cash - ending                   | \$ | <u><u>-</u></u>  |

(continued)

CITY OF BASTROP, LOUISIANA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - REVOLVING LOAN FUND

(Continued)

As of and for the Year Ended June 30, 2005

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:

|   |                  |
|---|------------------|
| Operating income (loss)   | \$( 58,041)      |
| Adjustments to reconcile operating income (loss) to net<br>cash provided by operating activities: |                  |
| Depreciation  | 26,008           |
| (Increase) decrease in due from other funds   | 6,244            |
| (Increase) decrease in loans receivable - net   | <u>38,226</u>    |
| Net cash provided by operating activities   | <u>\$ 12,437</u> |

See notes to financial statements.

CITY OF BASTROP, LOUISIANA

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2005

Note 1. Organization and Summary of Significant Accounting Policies

City of Bastrop, Louisiana (the "City"), operates under a mayor-board of aldermen form of government in accordance with the provisions of the charter adopted July 3, 1952. Citizens elect the mayor (at large) and five council members (by districts) who are each compensated. The City is located in northeast Louisiana, its population is approximately 13,000, and it employs approximately 200 people.

The following services are provided as authorized by its charter: general administrative services, public safety (police and fire), public works (building maintenance, cemetery, health, recreation, and streets), sanitation, and public improvements.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the City is considered a primary government, as it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the City may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt.

The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

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

## NOTES TO FINANCIAL STATEMENTS

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

Based on the criteria, the City has determined that City of Bastrop Sales Tax District No. 1 is a component unit of the reporting entity. As required by generally accepted accounting principles, these financial statements present the primary government (the City) and its component unit. The component unit is reported as part of the municipality and blended with the appropriate municipality funds.

Component units that are legally separate from the municipality, but are so intertwined with the municipality that they are, in substance, the same as the municipality, are blended component units. For a component unit to be blended, the organization's board and the municipality's must be substantively the same or the organization must provide services *entirely or almost entirely to the municipality*.

Also considered in the determination of component units of the reporting entity were Bastrop City Marshal and City Court of Bastrop. It was determined that these governmental entities are not component units of the City's reporting entity because they are staffed by independently elected officials, are legally separate, and are fiscally independent of the City.

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

### Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

## NOTES TO FINANCIAL STATEMENTS

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report licenses, permits, fees, fines, forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

### Fund Financial Statements:

*Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported in separate columns.*

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

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

## NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest related to long-term debt, as well as expenditures related to compensated absences, which are reported as expenditures only when payment is due.

Major revenue sources susceptible to accrual are ad valorem taxes, sales taxes, gross receipts taxes, intergovernmental revenues, and sewer use fees. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statement includes revenues and expenses related to primary, continuing operations of the fund. Principal operating expenses are depreciation of capital assets and bad debts. Other revenues and expenses are classified as non-operating in the financial statements.

### Fund Types and Major Funds:

The City reports the following major governmental funds:

*General Fund - the general operating fund of the City and accounts for all financial resources, except those required to be accounted for in other funds.*

*Sewer Use Fee Fund - accounts for a dedicated source of revenue available for repayment of funds borrowed to make improvements to the sewage treatment and collection systems.*

*Sales Tax Fund - accounts for a dedicated source of revenue available for maintaining, improving, repairing, and extending streets, sidewalks, alleys, roadways, and related drainage within the territorial limits of City of Bastrop Sales Tax District No. 1.*

*Capital Projects Fund - accounts for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.*

## NOTES TO FINANCIAL STATEMENTS

The City reports the following major proprietary fund:

Revolving Loan Fund - accounts for low-interest lending to qualified applicants, all of which must be related to economic development and the creation of jobs.

### *Budgets and Budgetary Accounting:*

The Board of Aldermen adopted annual budgets for the General Fund and Special Revenue Fund (Sewer Use Fee) on June 22, 2004 and June 10, 2004, respectively. The annual budgets were prepared in accordance with the basis of accounting utilized by the funds. The City Clerk is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures, resulting from revenues exceeding amounts estimated, must be approved by the Board of Aldermen. *Amendments were made to both budgets on June 9, 2005 and the budgetary comparison schedules, included as supplementary information in the accompanying financial statements, include the original and amended budgeted amounts. All annual appropriations lapse at the end of each fiscal year.*

No budget was adopted for the year ended June 30, 2005 for the Sales Tax Fund (special revenue fund).

### *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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### *Cash:*

Cash includes amounts in interest-bearing demand and time deposits. Under state law, the City may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

### *Pooled Deposits:*

Pooled deposits are stated at fair value based on quoted market values. The fair value of the deposits is determined on a weekly basis to monitor any variances between amortized cost and market value. Legally binding guarantees have not been obtained to support the value of the deposits and investments, since all are short-term, highly-liquid securities.

## NOTES TO FINANCIAL STATEMENTS

State statutes authorize the City to invest in United States bonds, treasury notes and bills, or certificates or time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. In addition, local governments in Louisiana are authorized to invest in Louisiana Asset Management Pool, Inc. (LAMP), a non-profit corporation formed by an initiative of the State Treasurer in 1993 and organized under the laws of the State of Louisiana, which operates a local government investment pool.

### Receivables and Due From Other Governments:

Significant receivables include franchise taxes, sales taxes, intergovernmental revenues, and amounts due from customers for utility services. Un-billed utility service receivables resulting from utility services rendered from the last date prior to the end of the fiscal year that meters were read to the end of the fiscal year are included in the amounts recorded as due from utility customers. Intergovernmental receivables are primarily comprised of amounts due for capital assets acquired, constructed, or rehabilitated with grants. Revenue is recorded as earned when eligibility requirements are met. Loans receivable are recorded for economic development loans.

### Uncollectible Allowance:

The statements contain no provision for uncollectible accounts. City management is of the opinion that such allowance would be immaterial in relation to the financial statements taken as a whole.

### Inventory:

Inventory of the General Fund consists of expendable supplies held for consumption and is reported at cost. Expenditures are recognized when the items are purchased.

### Interfund Transactions:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as due to/from other funds (i.e. the current portion of interfund loans) in the fund financial statements.

Transfers and payments within the reporting entity that are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis are reported as operating transfers between funds of the reporting entity.

## NOTES TO FINANCIAL STATEMENTS

Interfund transactions are eliminated in the government-wide financial statement of activities within the segregated governmental activities.

### Restricted Assets:

Restricted assets are reported for cash, pooled deposits, or investments legally restricted for specified uses such as payment of debt service and fiscal fees on long-term debt.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

### Capital Assets and Depreciation:

Accounting principles generally accepted in the United States of America require that capital assets be recorded for the governmental activities in the government-wide financial statements. As accurate historical costs of the assets of the governmental activities could not be determined by the City as of June 30, 2005, no capital assets are recorded for the governmental activities in the government-wide financial statements.

In the governmental activities, costs incurred during the current fiscal year for infrastructure and capital assets have been recorded as current expenditures.

The City has until the fiscal year beginning after June 15, 2007 to record major general infrastructure assets of the governmental activities. Retroactively reporting infrastructure assets is encouraged at the transition but not required.

### Deferred Revenue:

The City reports deferred revenue which arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed and revenue is recognized.

### Accumulated Compensated Absences:

Allowable annual vacation and sick leave is prescribed by municipal ordinance, based on length of continuous employment by the City, accrued on an employment anniversary basis, and accrued to specified maximums. Compensatory time is also granted to supervisory personnel in lieu of overtime pay. Employees may accumulate unused compensatory time which is paid to the employee in the form of time off or at the employee's current rate of pay upon separation from service.

## NOTES TO FINANCIAL STATEMENTS

The City's recognition and measurement criteria for compensated absences follows:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

GASB Statement No. 16 provides that a liability for sick leave should be accrued using one of the following approaches:

1. An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.
2. Alternatively, a governmental entity should estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

Estimated accrued compensated absences resulting from unused vacation and compensatory time at the end of the fiscal year are recorded as long-term liabilities in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Compensated absences are paid from the fund responsible for the employee's compensation with all liabilities payable from the General Fund.

## NOTES TO FINANCIAL STATEMENTS

### Long-Term Liabilities:

Accrued compensated absences, outstanding debt, and the related accrued interest is reported as liabilities in the government-wide financial statements. The fund financial statements recognize proceeds of debt as other financing sources (uses) of the current period. Expenditures for compensated absences, long-term debt principal, and interest payments are recorded in the fund financial statements only when payment is due.

### Equity Classifications:

In the government-wide financial statements, equity is classified as net assets and classified into two components:

1. Restricted - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted - consists of all other assets.

In the fund financial statements, governmental fund balances are classified as reserved or unreserved, with unreserved further classified as undesignated as amounts are available for appropriation and not legally restricted for specified purposes. Fund balance is reserved for amounts not available for appropriation or legally restricted for specified purposes.

### Revenue Recognition - Ad Valorem and Sales/Use Taxes:

*Ad valorem taxes attach as an enforceable lien on property as of January 1. Taxes are levied by the City in September or October, are actually billed to the taxpayers in November, and are due and payable on or before January 1 of the following year. All unpaid taxes become delinquent on March 15 of the following year. The City bills and collects its own property taxes using the assessed values determined by the tax assessor of Morehouse Parish. The City's ad valorem tax revenues are recognized as revenue when levied.*

Sales/use taxes collected and held by other governments at year end on behalf of the City and those collected by other governments and remitted to the City within 60 days after June 30 for preceding months are recognized as revenue. The sales/use taxes are collected by Morehouse Sales and Use Tax Commission and remitted to the City.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Cash and Deposits

The following is a summary of cash and deposits of the City as of June 30, 2005:

|                                  |                     |
|----------------------------------|---------------------|
| Non-pooled deposits:             |                     |
| Interest-bearing demand deposits | \$ 751,784          |
| Petty cash                       | <u>2,200</u>        |
| Pooled deposits                  | <u>4,033,719</u>    |
|                                  | <u>\$ 4,787,703</u> |

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

As of June 30, 2005, the City had \$757,087 in demand deposits (collected bank balances). These deposits were secured from risk by \$100,000 of federal deposit insurance (GASB Category 1) and \$657,087 of pledged securities held by the City or its agent in the City's name (GASB Category 1).

Pooled deposits are held at June 30, 2005 by Louisiana Asset Management Pool, Inc. (LAMP) and the corporate trust department of Regions Bank. In accordance with GASB, the pooled deposits held by the City as of June 30, 2005 are not categorized in the three risk categories provided by GASB because the pooled deposits are in pools of funds and thereby not evidenced by securities that exist in physical or book entry form.

LAMP is administered by a Louisiana non-profit corporation, LAMP, Inc., which is governed by a board of members elected by the pool's participants each year at the annual meeting. The objective of LAMP is to provide safety of principal and daily liquidity with a competitive rate of return. LAMP invests its assets only in securities and other obligations that are permissible under Louisiana state law for local governments. Regions Bank restricts its investments to securities issued, guaranteed, or otherwise backed by the U.S. Treasury, the U.S. government, or one of its agencies or instrumentalities, government-only money market funds rated AAAM by Standard & Poor's, and commercial paper of domestic United States corporations rated A-1 or A-1+ by Standard & Poor's.

There were no repurchase or reverse repurchase agreements as of June 30, 2005.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Receivables and Due From Other Governments

The following is a summary of receivables and due from other governments of the governmental activities as of June 30, 2005:

|                    | <u>General<br/>Fund</u> | <u>Sewer<br/>Use Fee<br/>Fund</u> | <u>Sales<br/>Tax<br/>Fund</u> | <u>Totals</u>     |
|--------------------|-------------------------|-----------------------------------|-------------------------------|-------------------|
| Taxes:             |                         |                                   |                               |                   |
| Franchise          | \$ 60,855               | \$ -                              | \$ -                          | \$ 60,855         |
| Sales              | 9,624                   | -                                 | 1,768                         | 11,392            |
| Intergovernmental: |                         |                                   |                               |                   |
| Federal            | 6,873                   | -                                 | -                             | 6,873             |
| State              | 153,827                 | -                                 | -                             | 153,827           |
| Local              | 4,505                   | -                                 | -                             | 4,505             |
| User fees:         |                         |                                   |                               |                   |
| Sewer              | <u>-</u>                | <u>151,075</u>                    | <u>-</u>                      | <u>151,075</u>    |
|                    | <u>\$ 235,684</u>       | <u>\$ 151,075</u>                 | <u>\$ 1,768</u>               | <u>\$ 388,527</u> |

### Note 3. Taxes

For the year ended June 30, 2005, ad valorem taxes of 39.35 mills were levied on property with assessed valuations totaling \$78,132,720 as follows:

|                            | <u>Maximum<br/>Millage</u> | <u>Authorized<br/>Millage</u> | <u>Expiration<br/>Date</u> |
|----------------------------|----------------------------|-------------------------------|----------------------------|
| General corporate purposes | 9.58                       | 9.26                          | Perpetual                  |
| Police                     | 6.80                       | 6.57                          | 2021                       |
| Street improvements        | 6.80                       | 6.57                          | 2021                       |
| Sewer maintenance          | 6.80                       | 6.57                          | 2021                       |
| Fire (#1)                  | 3.40                       | 3.29                          | 2021                       |
| Fire (#2)                  | 3.23                       | 3.23                          | 2023                       |
| Recreation                 | 2.56                       | 2.56                          | 2023                       |
| Cemetery                   | .65                        | .65                           | 2023                       |
| Building maintenance       | .65                        | .65                           | 2023                       |

NOTES TO FINANCIAL STATEMENTS

The following is the principal ad valorem taxpayer for the City:

|                                    | <u>Assessed<br/>Valuation</u> | <u>Percentage of<br/>Total Assessed<br/>Valuation</u> | <u>Ad Valorem<br/>Tax Revenue</u> |
|------------------------------------|-------------------------------|---|-----------------------------------|
| <i>International Paper Company</i> | \$ 34,914,290                 | 44.69%  | \$ 1,373,877                      |

Total ad valorem taxes levied were \$3,074,537. There were no uncollected ad valorem taxes as of June 30, 2005.

As of June 30, 2005, the following sales and use taxes were levied:

| <u>Rate</u> | <u>Purpose</u>   | <u>Expiration<br/>Date</u> |
|-------------|--|----------------------------|
| ½%          | any lawful municipal purposes                              | June 1, 2010               |
| ½%          | any lawful municipal purposes                              | August 1, 2009             |
| 1%          | any and all lawful municipal purposes                      | August 1, 2008             |
| ½%          | general, fire, and police operations                       | Perpetual                  |
| ½%          | streets, sidewalks, alleys, roadways, and related drainage | December 31, 2014          |

Note 4. Interfund Balances and Transfers

As of June 30, 2005, the General Fund had received \$150,000 from the Sewer Use Fee Fund to pay general expenses until ad valorem tax revenues are received beginning in November or December of 2005 at which time the interfund balance will be repaid in full.

Operating transfers of \$32,560 were made from the Sewer Use Fee Fund to the Capital Projects Fund to meet the local funding requirements of a community development block grant.

Note 5. Restricted Assets and Liabilities Payable From Same

Restricted assets of \$2,552,348 of the Sewer Use Fee Fund consist of funds required by sewer revenue bond loan and pledge agreements to be maintained and the use is restricted by the agreements.

NOTES TO FINANCIAL STATEMENTS

Note 6. Loans Receivable

The General Fund made loans to local businesses to purchase industrial park lots during the year ended June 30, 2002. The terms and balances of these outstanding individual loans as of June 30, 2005 are as follows:

| <u>Lendee</u>                         | <u>Original Note</u> | <u>Monthly Payment</u> | <u>Term in Months</u> | <u>Beginning Date of Payments</u> | <u>Interest Rate</u> | <u>Balance June 30, 2005</u> |
|---------------------------------------|----------------------|------------------------|-----------------------|-----------------------------------|----------------------|------------------------------|
| Foley & McIntyre, Inc.                | \$ 22,500            | \$ 684                 | 36                    | January 1, 2004                   | 6.00%                | \$ 22,500                    |
| Jireh Plastics and Assemblies, L.L.C. | 4,500                | 137                    | 36                    | January 1, 2004                   | 6.00%                | 4,500                        |
| 3-D Trucking, L.L.C.                  | <u>18,000</u>        | 548                    | 36                    | November 1, 2003                  | 6.00%                | <u>17,542</u>                |
|                                       | <u>\$ 45,000</u>     |                        |                       |                                   |                      | <u>\$ 44,542</u>             |

The loans made provision for payment by economic impact credits if the businesses employed the required number of full-time, local employees during the stated consecutive quarters of the 2003 calendar year. Failure by all parties to meet the defined economic impact credits and/or ceasing operations resulted in initial payments becoming due on November 1, 2003 or January 1, 2004. As of June 30, 2005, only one monthly payment had been received from one party.

In previous years, the City made low-interest loans to qualified applicants who used the loan proceeds for economic development and the creation of jobs. As of June 30, 2005, the terms and balances of these outstanding individual loans are as follows:

| <u>Lendee</u>   | <u>Original Note</u> | <u>Monthly Payment</u> | <u>Term in Months</u> | <u>Beginning Date of Payments</u> | <u>Interest Rate</u> | <u>Balance June 30, 2005</u> |
|---|----------------------|------------------------|-----------------------|-----------------------------------|----------------------|------------------------------|
| Henry C. Cotton   | \$ 18,000            | 298                    | 72                    | August 10, 2000                   | 6.00%                | \$ 5,624                     |
| Bennie J. and Bessie M. Johnson Blind Labor Training Center, Inc. | 12,000               | 282                    | 48                    | December 20, 2000                 | 6.00%                | 2,286                        |
| Foley Mechanical, L.L.C.  | <u>5,000</u>         | 200                    | 24                    | December 30, 2000                 | 6.00%                | <u>5,000</u>                 |
|   | <u>36,000</u>        | 1,079                  | 36                    | May 1, 2003                       | 5.00%                | <u>29,416</u>                |
|   | <u>\$ 71,000</u>     |                        |                       |                                   |                      | <u>\$ 42,326</u>             |

As of June 30, 2005, management of the City determined that \$28,536 of outstanding balances of other loans made for similar purposes were uncollectible due to the lendees declaring bankruptcy, ceasing operations, etc. and expensed the amount as bad debts in the Revolving Loan Fund.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Capital Assets

As of the date of this report, the City was unable to provide sufficient evidence to verify the historical costs associated with capital assets of the governmental activities; therefore, no capital assets or the related accumulated and current depreciation have been recorded for the governmental activities. Capital assets are presumed to be material in relation to the City's governmental activities. Therefore, the omission of the presentation of all capital assets in the basic financial statements has resulted in the issuance of an adverse opinion on the governmental activities opinion unit.

The City's recording of capital assets and depreciation in the next fiscal year will result in material prior period adjustments to the financial statements prepared as of and for the year ended June 30, 2005.

Capital asset activity of the business-type activities for the year ended June 30, 2005 before the residual equity was transferred to the General Fund was as follows:

|   | <u>Balance</u>      | <u>Additions</u>  | <u>Balance</u>       |
|---|---------------------|-------------------|----------------------|
|   | <u>July 1, 2004</u> |                   | <u>June 30, 2005</u> |
| Buildings                                       | \$ 339,012          | \$ 350,000        | \$ 689,012           |
| Improvements other than buildings               | <u>351,564</u>      | <u>-</u>          | <u>351,564</u>       |
| Total capital assets                            | <u>\$ 690,576</u>   | <u>\$ 350,000</u> | <u>\$ 1,040,576</u>  |
| Less accumulated depreciation:                  |                     |                   |                      |
| Buildings                                       | \$ 69,758           | \$ 14,290         | \$ 84,048            |
| Improvements other than buildings               | <u>99,690</u>       | <u>11,718</u>     | <u>111,408</u>       |
| Total accumulated depreciation                  | <u>\$ 169,448</u>   | <u>\$ 26,008</u>  | <u>\$ 195,456</u>    |
| Capital assets, net of accumulated depreciation | <u>\$ 521,128</u>   | <u>\$ 323,992</u> | <u>\$ 845,120</u>    |

### Note 8. Short-Term Debt

On August 25, 2004, the City issued a \$1,500,000 revenue anticipation note for the purpose of paying current general expenses for the fiscal year ended June 30, 2005. The maturity date was on or before March 1, 2005 and the City paid the note in full with interest thereon in January 2005.

NOTES TO FINANCIAL STATEMENTS

Note 9. Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the governmental activities of the City for the year ended June 30, 2005:

|  | <u>Certificates<br/>of<br/>Indebtedness</u> | <u>General Fund<br/>Capital<br/>Leases</u> | <u>Compen-<br/>sated<br/>Absences</u> | <u>Pension<br/>Liabilities</u> | <u>Sewer Use<br/>Fee Fund<br/>Sewer<br/>Revenue<br/>Bonds</u> | <u>Totals</u>       |
|--|---|--|---------------------------------------|--------------------------------|---|---------------------|
| Long-term debt payable - July 1, 2004  | \$ 373,000                                  | \$ 72,292                                  | \$ 205,417                            | \$ 376,764                     | \$ 8,770,000  | \$ 9,797,473        |
| Additions                              | 34,815                                      | -  | 14,444                                | 133,261                        | -   | 182,520             |
| Retirements                            | ( 40,500)                                   | ( 22,777)                                  | -                                     | ( 43,536)                      | ( 440,000)  | ( 546,813)          |
| Long-term debt payable - June 30, 2005 | <u>\$ 367,315</u>                           | <u>\$ 49,515</u>                           | <u>\$ 219,861</u>                     | <u>\$ 466,489</u>              | <u>\$ 8,330,000</u>   | <u>\$ 9,433,180</u> |

The following is a summary of the current (due within one year) and long-term (due in more than one year) portions of long-term obligations of the governmental activities as of June 30, 2005:

|                   | <u>Certificates<br/>of<br/>Indebtedness</u> | <u>General Fund<br/>Capital<br/>Leases</u> | <u>Compen-<br/>sated<br/>Absences</u> | <u>Pension<br/>Liabilities</u> | <u>Sewer Use<br/>Fee Fund<br/>Sewer<br/>Revenue<br/>Bonds</u> | <u>Totals</u>       |
|-------------------|---|--|---------------------------------------|--------------------------------|---|---------------------|
| Current portion   | \$ 76,315                                   | \$ 24,073                                  | \$ 164,868                            | \$ 70,144                      | \$ 460,000  | \$ 795,400          |
| Long-term portion | <u>291,000</u>                              | <u>25,442</u>                              | <u>54,993</u>                         | <u>396,345</u>                 | <u>7,870,000</u>  | <u>8,637,780</u>    |
|                   | <u>\$ 367,315</u>                           | <u>\$ 49,515</u>                           | <u>\$ 219,861</u>                     | <u>\$ 466,489</u>              | <u>\$ 8,330,000</u>   | <u>\$ 9,433,180</u> |

The certificates of indebtedness and bonds are comprised of the following individual issues:

Taxable Certificate of Indebtedness - dated October 15, 2004, bears interest based on *The Wall Street Journal* rate plus 2.3% adjusted quarterly, interest paid on April 1, 2005 and due again on the maturity date of October 15, 2005.

## NOTES TO FINANCIAL STATEMENTS

The City issued the certificate of indebtedness to Fannie Mae (advanceable to maximum of \$240,000) for the purpose of financing all or a portion of the costs of participation in a program to encourage home ownership for lower to moderate income families and paying costs of issuance. The certificate is secured by the dedication of the excess of annual revenues of subsequent years above statutory necessary and usual changes to the payment of the cost of public improvements.

As of the date of this report, Fannie Mae was processing a request for a 12 month extension for the principal payment.

Also issued in relation to this same project was a \$60,000 line of credit by a local financial institution which originally expired on October 15, 2005 but was extended to October 15, 2006.

Certificates of Indebtedness Series 2002 - dated July 11, 2002, non-interest bearing, principal due July 1 of each year.

Certificates of Indebtedness Series 2002 - dated July 11, 2002, bear interest at 5.0% per annum, interest due January 1 and July 1 of each year, principal due July 1 of each year.

The City issued the certificates of indebtedness to Louisiana Public Facilities Authority (\$67,500) and to a local bank (\$382,500) for the purpose of (a) refunding prior certificates; (b) paying costs of acquiring public works equipment; (c) the acquisition, construction, and installation of improvements to the City's infrastructure, including streets and drainage; and (d) paying costs incurred in connection with the issuance of the certificates.

The certificates are payable as to principal and interest from an irrevocable pledge and dedication of the City's excess revenues above statutory, necessary, and usual charges in each fiscal year during which the certificates are outstanding.

\$7,500,000 Sewer Revenue Bonds - dated December 1, 1994, bear interest at 2.45% per annum, interest and principal payable July 1 of each year.

\$1,700,00 Sewer Revenue Bonds - dated November 1, 2002, bear interest at a rate not to exceed 7.0% per annum, interest due May 1 and November 1 of each year, principal due November 1 of each year.

\$2,100,00 Sewer Revenue Bonds - dated September 24, 2003, bear interest at a rate not to exceed 6.0% per annum, interest due May 1 and November 1 of each year, principal due November 1 of each year.

## NOTES TO FINANCIAL STATEMENTS

Proceeds of the sewer revenue bonds dated in 1994 were received in two separate series and for the purpose of financing the acquisition and construction of extensions and improvements to the City's sewage and wastewater collection, treatment, and disposal systems.

The proceeds of the sewer revenue bonds dated in 2002 and 2003 were for the purpose of providing funds to (a) construct and acquire improvements, extensions, replacements, and renovations to the City's sewage system, including appurtenant equipment, accessories, and properties, both personal and real; (b) fund the reserve requirement; and (c) pay the costs of issuance of the bonds.

The sewer revenue bonds are payable as to principal, interest, and administrative fees solely from the revenues and income derived or to be derived from the operation of the sewage system.

Bond covenants contain significant requirements for annual debt service and flow of funds through various restricted accounts. Specifically, the revenue bond indentures require the use of revenue, bond proceeds, operations and maintenance, reserve, sinking, construction, and renewal and replacement accounts. The City is in compliance with all significant requirements of the various bond covenants.

The interest and principal payments on both the certificates of indebtedness and bonds due July 1 of the succeeding fiscal year are consistently being reported and budgeted by the City in the current fiscal year when payments are actually made.

The City's outstanding capital lease agreement is for a pumper with an original recorded amount of \$169,050. As of June 30, 2005, future minimum lease payments together with the present value of the net minimum lease payments are:

|   |  |                  |
|---|--|------------------|
| Year Ending                                 |  |                  |
| <u>June 30,</u>                             |  |                  |
| 2006  |  | \$ 26,890        |
| 2007  |  | <u>26,890</u>    |
|   |  | \$ 53,780        |
| Amounts representing interest               |  | <u>( 4,265)</u>  |
| Present value of net minimum lease payments |  | <u>\$ 49,515</u> |

The annual requirements to amortize the certificates of indebtedness, sewer revenue bonds, and pension liabilities of the governmental activities as of June 30, 2005 are as follows:

NOTES TO FINANCIAL STATEMENTS

| Year Ending<br>June 30, | General Fund                    |                        | Sewer Use<br>Fee Fund  | Totals              |
|-------------------------|---------------------------------|------------------------|------------------------|---------------------|
|                         | Certificates of<br>Indebtedness | Pension<br>Liabilities | Sewer<br>Revenue Bonds |                     |
| 2006                    | \$ 76,315                       | \$ 70,144              | \$ 460,000             | \$ 606,459          |
| 2007                    | 43,500                          | 74,859                 | 470,000                | 588,359             |
| 2008                    | 45,000                          | 79,890                 | 485,000                | 609,890             |
| 2009                    | 47,000                          | 85,262                 | 505,000                | 637,262             |
| 2010                    | 49,000                          | 90,996                 | 510,000                | 649,996             |
| 2011-15                 | 106,500                         | 65,338                 | 2,840,000              | 3,011,838           |
| 2016-20                 | -                               | -                      | 1,245,000              | 1,245,000           |
| 2021-25                 | -                               | -                      | 965,000                | 965,000             |
| 2026-29                 | -                               | -                      | 850,000                | 850,000             |
| Totals                  | <u>\$ 367,315</u>               | <u>\$ 466,489</u>      | <u>\$ 8,330,000</u>    | <u>\$ 9,163,804</u> |

The City incurred and charged to expense \$387,545 of interest costs during the year ended June 30, 2005. The annual requirements to amortize all interest and administrative fees applicable to the certificates of indebtedness, sewer revenue bonds, and pension liabilities of the governmental activities as of June 30, 2005 are as follows:

| Year Ending<br>June 30, | Certificates of<br>Indebtedness | Pension<br>Liabilities | Sewer Revenue Bonds |                        | Totals              |
|-------------------------|---------------------------------|------------------------|---------------------|------------------------|---------------------|
|                         | Interest                        | Interest               | Interest            | Administrative<br>Fees |                     |
| 2006                    | \$ 15,275                       | \$ 30,681              | \$ 288,130          | \$ 23,275              | \$ 357,361          |
| 2007                    | 13,875                          | 25,967                 | 276,847             | 21,450                 | 338,139             |
| 2008                    | 12,375                          | 20,935                 | 264,646             | 19,575                 | 317,531             |
| 2009                    | 10,125                          | 15,563                 | 251,642             | 17,650                 | 294,980             |
| 2010                    | 15,825                          | 9,830                  | 238,198             | 15,650                 | 279,503             |
| 2011-15                 | -                               | 4,574                  | 965,017             | 46,450                 | 1,016,041           |
| 2016-20                 | -                               | -                      | 596,998             | 2,450                  | 599,448             |
| 2021-25                 | -                               | -                      | 372,376             | -                      | 372,376             |
| 2026-29                 | -                               | -                      | 93,255              | -                      | 93,255              |
| Totals                  | <u>\$ 67,475</u>                | <u>\$ 107,550</u>      | <u>\$ 3,347,109</u> | <u>\$ 146,500</u>      | <u>\$ 3,668,634</u> |

As of June 30, 2005, employees of the City had accumulated and vested \$219,861 of employee leave benefits.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Special Item - Residual Equity Transfer

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires that activities be reported as an enterprise fund type of proprietary fund if any one of the following criteria is met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service) be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

As the Revolving Loan Fund's activity (previously reported as a proprietary fund) did not meet any of the above criteria and the City's legal counsel had no knowledge of any restrictions being placed on the use of the funds by the City for other public purposes as of June 30, 2005, the remaining net assets of \$358,228 of the Revolving Loan Fund (excluding net capital assets) were transferred to the General Fund in the government-wide and fund financial statements.

### Note 11. Fund Balances - Reserved

The net difference in the General Fund of the restricted assets and the liabilities payable therefrom has been reserved to indicate the current unavailability of the net assets to pay current expenditures.

*Inventory at year end is equally offset by a fund balance reservation of the General Fund under the purchase method.*

Revenues collected by the Sewer Use Fee Fund are dedicated for repayment of funds borrowed for acquisition, construction, and improvements to the sewage and wastewater collection, treatment, and disposal systems; therefore fund balance is reserved. Likewise, fund balance of the Sales Tax fund has been reserved as revenues collected by the fund are dedicated for maintaining, improving, repairing, and extending streets and related improvements.

## NOTES TO FINANCIAL STATEMENTS

### Note 12. Donated Capital Assets and Supplies

During the year ended June 30, 2005, the City acquired \$133,904 of capital assets and supplies without financial resources through donation from State of Louisiana, Department of Public Safety. As governmental funds report only the financial resource flows, the *donations did not affect and are not reported in the governmental fund financial statements.* But both revenues and expenditures for \$133,904 are reported in the government-wide financials statements as they report using the economic resources measurement focus.

### Note 13. Deferred Compensation Plan

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

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

### Note 14. Pension Plans and Other Pension Liabilities

For the year ended June 30, 2005, the City paid retirement benefits of \$95,571 from the General Fund to firemen who were already receiving benefits prior to December 1981. In December 1981, active City firemen were accepted into the Firefighters' Retirement System of Louisiana. The liability associated with this acceptance has been recorded in the government-wide financial statements as General Fund debt.

*Substantially all employees of the City are members of Municipal Employees' Retirement System of Louisiana, Municipal Police Employees' Retirement System of Louisiana, or Firefighters' Retirement System of Louisiana. These systems are cost-sharing, multiple-employer, defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:*

## NOTES TO FINANCIAL STATEMENTS

### Municipal Employees' Retirement System of Louisiana (the "System"):

#### Plan Description:

The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All participating employees of the City are members of Plan A.

All permanent employees working at least 35 hours per week who are not covered by another pension plan and are paid wholly or in part from City funds and all elected City officials are eligible to participate in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of creditable service, at or after age 55 with at least 25 years of creditable service, or at any age with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3% of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produces the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

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

#### Funding Policy:

Under Plan A, members are required by state statute to contribute 9.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 15.0% of annual covered payroll. Contributions to the System also include 1/4 of 1% (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the City are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the System under Plan

## NOTES TO FINANCIAL STATEMENTS

A for the years ended June 30, 2005, 2004, and 2003 were \$244,223, \$197,889, and \$140,206, respectively, equal to the required contributions for each year.

### Municipal Police Employees' Retirement System of Louisiana (the "System"):

#### Plan Description:

All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service, at or after age 55 with at least 12 years of creditable service, or at any age with 25 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3% of their final-average salary for each year of creditable service, not to exceed 100% of their final average salary. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produces the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

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

#### Funding Policy:

Plan members are required by state statute to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 21.5% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the System for the years ended June 30, 2005, 2004, and 2003 were \$281,558, \$218,633, and \$126,987, respectively, equal to the required contributions for each year.

## NOTES TO FINANCIAL STATEMENTS

### Firefighters' Retirement System of Louisiana (the "System"):

#### Plan Description:

Membership in the Firefighters' Retirement System of Louisiana is mandatory for all full-time firefighters employed by a municipality, parish, or fire protection district that did not enact an ordinance before January 1, 1980, exempting itself from participation in the System. Employees are eligible to retire at or after age 55 with at least 12 years of creditable service or at or after age 50 with at least 20 years of creditable service. Upon retirement, members are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3% of their final-average salary for each year of creditable service, not to exceed 100% of their final-average salary. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produces the highest average. Employees who terminate with at least 12 years of service and do not withdraw their employee contributions may retire at or after 55 (or at or after age 50 with at least 20 years of creditable service at termination) and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Firefighters' Retirement System of Louisiana, P. O. Box 94095, Baton Rouge, Louisiana 70804, or by calling (225)925-4060.

#### Funding Policy:

Plan members are required by state statute to contribute 8.0% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 24% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City's contributions to the System for the years ended June 30, 2005, 2004 and 2003 were \$423,873, \$142,234, and \$128,947, respectively, equal to the required contributions for each year.

#### Note 15. On-Behalf Payments for Salaries

For the year ended June 30, 2005, the City recognized revenue and expenditures of \$10,800, \$155,320, and \$160,610 in salary supplements from State of Louisiana paid directly to employees of the administrative, police, and fire departments, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 16. Operating Leases

The City has entered into a number of operating leases for copiers which contain cancellation provisions and are subject to annual appropriations. For the year ended June 30, 2005, rental expenditures primarily supported governmental activities.

### Note 17. Agreement for Operations, Maintenance, and Management Services

On June 1, 1996, the City entered into an agreement for operations, maintenance, and management services of the wastewater and related treatment facilities with Professional Services Group, Inc. (PSG), for a period of five years.

PSG's compensation under the agreement consisted of an annual fee which was negotiated each year with one-twelfth of the annual fee due and payable on the first day of each month that services were to be provided.

In June 2000, the Board of Aldermen approved renewing the agreement one year early and extending the contract to June 1, 2006 with the current owner of PSG (U.S. Filter Operating Services, Inc.) (USFOS).

On April 28, 2003, upon entering the eighth year of the contract with USFOS, the City agreed to an annual fee increase of 3.2%, representing an annual increase of \$26,492. An annual fee increase of 2.7%, representing an annual increase of \$23,068, was agreed to on April 12, 2004 upon entering the ninth year of the contract with Veolia Water (previously USFOS). As of the date of this report, the City has not signed the contract for the year ended June 30, 2006.

### Note 18. Billing and Collection Agreement

A sewer billing and collection agreement was signed on March 27, 2001 by the City with Water Treatment & Controls Company (WT&C) wherein WT&C will act and serve as billing, receiving, and collection agent for the City's sewerage charges owed by WT&C customers who are also the City's sewer customers. The City will pay WT&C a monthly fee of \$2,500 for their services. The contract is for a period of one year commencing at the date of execution and will automatically be extended from year to year unless one of the parties gives 90 days written notice prior to the end of the current year of its intention to terminate the agreement.

## NOTES TO FINANCIAL STATEMENTS

### Note 19. Cooperative Endeavor Agreements

On February 19, 1999, the City entered into a contract and agreement with Bastrop Area Fire Protection District No. 2 (the "District") for the public benefit of the citizens of the City and the District. The term of the contract is for ten years commencing on January 1, 1999 and terminating on December 31, 2009. This agreement novated and replaced the last year of the contract and agreement which had been previously agreed to by the two parties.

Under the agreement, the District agreed to pay the City the base sum of \$367,000 during the first calendar year of the contract. For each calendar year thereafter, the District agreed to pay the base sum and an additional amount equal to 3% of the total amount of all payments received by the City from the District for the previous calendar year. The annual amount owed to the City by the District shall be paid in two equal installments with payments being due on February 1 and July 1. The additional amount may be revised annually if raises are given to firemen or if the inflation rate exceeds 5% annually.

During the year ended June 30, 2002, the District agreed to, with no formal agreement, and did pay the City \$17,500 for the use of a service truck and agreed to pay \$7,500 annually for its use also subject to the 3% additional amount each year.

On October 11, 2001, the City entered into a cooperative endeavor agreement with U.S. Filter (USF). The City paid USF \$8,680 toward the acquisition of a backhoe to further the joint efforts of the City and USF in rehabilitating the City's sewage system. USF entered into a lease purchase agreement to acquire the backhoe and agreed, for so long as USF maintains a contractual agreement with the City for sewer rehab or service operation services (see Note 17), to assume any and all additional costs for acquisition of the backhoe. Provided that all contractual agreements between the City and USF remain in effect for a period of not less than eight years from the effective date of this agreement, with no material breach of the contractual agreement by the City, USF agrees to deliver full title to the equipment on or before the expiration of eight years after the of the effective date of this agreement, without further payment or remuneration due from the City.

### Note 20. Contingencies and Risk Management

A lawsuit has been filed by the City against a party as the result of default on repaying the full amounts remaining due to the City on one of the loans receivable written off as a bad debt as of June 30, 2005 and discussed further in Note 6. The City's legal counsel is of the opinion that it is possible, but not likely, that the City will receive de minimis amounts of funds from the bankruptcy trustee.

## NOTES TO FINANCIAL STATEMENTS

The City's legal counsel is also of the opinion that Morehouse Parish Police Jury is legally responsible for meeting all federal, state, or local laws or regulations related to the solid waste landfill which is owned by the City but operated and managed by the Jury.

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

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of June 30, 2005 may be impaired. In the opinion of City management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

### Note 21. Commitments

On June 23, 2003, the City was awarded a rural development grant up to a maximum amount of \$38,666 for the purpose of constructing a skating park from old tennis courts. Several extensions of time were granted to the City after which the state advised and the City did request that the grant be closed and reapplied for funding. On April 29, 2005, the City was awarded another grant for the same amount and purpose to expire on June 30, 2006. No work was performed as of June 30, 2005 as the City was searching for additional financing resources for the project.

Delta Regional Authority awarded the City a grant of \$22,230 on March 23, 2004 for the purpose of high-speed internet access and no work had begun as of June 30, 2005.

On December 12, 2002, the City, as sponsoring entity, and Thermal Logic, Inc. entered into an economic development award contract/agreement for \$120,000 with Louisiana Department of Economic Development. The grant funding provided for the modernization and rehabilitation of an existing City-owned building to currently required industry and health standards. The project was completed in the year ended June 30, 2004 at a cost of \$110,827 and a receivable for the grant funding reimbursement in the same amount was recorded. As of June 30, 2005, the City had received \$19,114 of the anticipated reimbursement.

## NOTES TO FINANCIAL STATEMENTS

In September 2004, the City accepted a commitment of \$666,225 of funding from Louisiana Housing Finance Agency to produce affordable housing. During the year ended June 30, 2005, the City expended and was reimbursed by Louisiana Housing Finance Agency \$37,301 of costs related to the project.

An agreement was entered into by the City with the Federal Highway Administration on August 20, 2004 for \$257,000 funding, through Louisiana Department of Transportation and Development, to be used for the construction of concrete sidewalks in the downtown area of the City. The City will have to contribute 5% of the participating construction costs in addition to providing all design and construction inspection. As of June 30, 2005, the City had expended \$19,740 on design and construction inspection with no other related project costs being expended or obligated.

On September 20, 2004, the City accepted a \$989,477 grant award from United States Department of Justice to replace, upgrade, and acquire equipment for and provide training to the City's police department. As of June 30, 2005, \$583,405 of the funding source had been expended. The award end date has been extended from January 22, 2005 to January 22, 2006.

### Note 22. Subsequent Events

On August 19, 2005, the City was notified by State of Louisiana Department of Transportation and Development that funding for an airport project began in 2002 had been increased from \$125,000 to \$137,689. No work was performed on the project during the year ended June 30, 2005.

On August 16, 2005, the City accepted a \$246,661 grant award from United States Department of Justice to replace, upgrade, and acquire equipment for and provide training to the City's police department. As of June 30, 2005, no funds had been expended or obligated. The award end date is December 7, 2007.

Office for Domestic Preparedness Homeland Security Grant Program awarded the City \$13,433 on August 8, 2005 to purchase equipment for use in domestic preparedness.

The State Bond Commission, State of Louisiana, approved on July 24, 2005 the City incurring debt and issuing not to exceed \$1,500,000 revenue anticipation notes for the purpose of paying current expenses and to pay the costs incurred in connection with the issuance of the notes. The proceeds of the notes were deposited by the City in August 2005. The notes mature with interest thereon on or before March 1, 2006.

## NOTES TO FINANCIAL STATEMENTS

On April 22, 2005, the State Bond Commission, State of Louisiana, approved the application of City of Bastrop Sales Tax District No. 1 (the "District") to issue, sell, and deliver not exceeding \$5,500,000 of sales tax bonds. Such bonds in the amount of \$3,000,000 were issued on July 1, 2005 for the purpose of maintaining, improving, repairing, and extending the streets, sidewalks, alleys, roadways, and related drainage within the territorial limits of the District. The bonds are payable solely from and secured by an irrevocable pledge and dedication of the avails or proceeds of the .5% sales and use tax levied in compliance with elections held by the District on November 2, 2004.

The City accepted a grant not to exceed \$479,359 from Federal Aviation Administration in August 2005 to construct an airport taxiway. State of Louisiana will contribute 5%, not to exceed \$16,667, of the program eligible cost of the project with the City contributing any remaining cost.

United States Department of Housing and Urban Development notified the City on September 20, 2005 of a \$500,000 Hope VI Main Street Grant for creating affordable housing and continued economic development of Bastrop Historic District. Other state, local, and private funding sources will later become available.

Treasurer of State of Louisiana notified the City on July 26, 2005 as to being the recipient of a \$70,700 appropriation with monies to be expended for downtown development.

On August 8, 2005, the Board of Aldermen authorized the Mayor to enter into a cooperative endeavor agreement with Wal-Mart, relative to infrastructure improvements for the construction of a new Wal-Mart Superstore. Also, on this same date, authorization was given to incur debt not to exceed \$2,000,000 through the issuance of certificates of indebtedness and to make application to the State Bond Commission, State of Louisiana. Should Wal-Mart decide not to proceed with construction of the new facility, the City will not be liable for the infrastructure indebtedness.

REQUIRED SUPPLEMENTARY INFORMATION (Part 2 of 2)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GOVERNMENTAL FUND - GENERAL FUND

As of and for the Year Ended June 30, 2005

|  | <u>Budgeted Amounts</u> |                      | <u>Actual</u>         | <u>Variance -</u>                        |
|--|-------------------------|----------------------|-----------------------|--|
|  | <u>Original</u>         | <u>Final</u>         |                       | <u>Favorable</u><br><u>(Unfavorable)</u> |
| <b>Revenues:</b>                                     |                         |                      |                       |  |
| Taxes  | \$ 7,966,478            | \$ 8,386,478         | \$ 8,216,177          | \$( 170,301)                             |
| Licenses and permits                                 | 449,510                 | 474,510              | 481,729               | 7,219                                    |
| Intergovernmental                                    | 948,606                 | 1,692,473            | 1,734,850             | 42,377                                   |
| Fees, charges, and commissions<br>for services       | 251,020                 | 264,020              | 234,796               | ( 29,224)                                |
| Fines and forfeitures                                | 206,030                 | 206,030              | 163,378               | ( 42,652)                                |
| Interest and miscellaneous                           | <u>220,750</u>          | <u>220,750</u>       | <u>218,735</u>        | <u>( 2,015)</u>                          |
| Total revenues                                       | <u>\$ 10,042,394</u>    | <u>\$ 11,244,261</u> | <u>\$ 11,049,665</u>  | <u>\$( 194,596)</u>                      |
| <b>Expenditures:</b>                                 |                         |                      |                       |  |
| <b>Current:</b>                                      |                         |                      |                       |  |
| General government                                   | \$ 2,160,215            | \$ 2,214,379         | \$ 2,413,020          | \$( 198,641)                             |
| Public safety  | 5,088,243               | 4,963,131            | 5,016,770             | ( 53,639)                                |
| Public works   | 1,773,459               | 1,773,459            | 1,767,026             | 6,433                                    |
| Sanitation   | 893,443                 | 893,443              | 950,593               | ( 57,150)                                |
| <b>Debt service:</b>                                 |                         |                      |                       |  |
| Principal  | 127,034                 | 1,693,704            | 1,606,813             | 86,891                                   |
| Interest and fiscal charges                          | -                       | -                    | 64,047                | ( 64,047)                                |
| Capital outlay                                       | -                       | <u>551,934</u>       | <u>812,847</u>        | <u>( 260,913)</u>                        |
| Total expenditures                                   | <u>\$ 10,042,394</u>    | <u>\$ 12,090,050</u> | <u>\$ 12,631,116</u>  | <u>\$( 541,066)</u>                      |
| Excess (deficiency) of<br>revenues over expenditures | <u>\$ -</u>             | <u>\$( 845,789)</u>  | <u>\$( 1,581,451)</u> | <u>\$( 735,662)</u>                      |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GOVERNMENTAL FUND - GENERAL FUND (Continued)  
 As of and for the Year Ended June 30, 2005

|   | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|-------------------------|---------------------|---------------------|---|
|   | <u>Original</u>         | <u>Final</u>        |                     |   |
| Other financing sources (uses):         |                         |                     |                     |   |
| Operating transfers in (out)            | \$ -                    | \$( 135,000)        | \$ 5,872            | \$ 140,872  |
| Revenue anticipation note<br>proceeds   | -                       | 1,500,000           | 1,500,000           | -   |
| Long-term debt proceeds                 | -                       | -                   | 168,076             | 168,076   |
| Total other financing sources<br>(uses) | <u>\$ -</u>             | <u>\$ 1,365,000</u> | <u>\$ 1,673,948</u> | <u>\$ 308,948</u>                                 |
| Special item:                           |                         |                     |                     |   |
| Residual equity transfer in             | <u>\$ -</u>             | <u>\$ -</u>         | <u>\$ 358,228</u>   | <u>\$ 358,228</u>                                 |
| Net change in fund balance              | \$ -                    | \$ 519,211          | \$ 450,725          | \$( 68,486)                                       |
| Fund balance - beginning                | -                       | -                   | 206,004             | 206,004   |
| Fund balance - ending                   | <u>\$ -</u>             | <u>\$ 519,211</u>   | <u>\$ 656,729</u>   | <u>\$ 137,518</u>                                 |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GOVERNMENTAL FUND - SEWER USE FEE FUND  
 As of and for the Year Ended June 30, 2005

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|---------------------|---------------------|---|
|  | <u>Original</u>         | <u>Final</u>        |                     |   |
| Revenues:  |                         |                     |                     |   |
| Fees, charges, and commissions<br>for services       | \$ 1,098,012            | \$ 1,098,012        | \$ 1,060,453        | \$ ( 37,559)                                      |
| Interest and miscellaneous                           | <u>35,138</u>           | <u>35,138</u>       | <u>81,448</u>       | <u>46,310</u>                                     |
| Total revenues                                       | <u>\$ 1,133,150</u>     | <u>\$ 1,133,150</u> | <u>\$ 1,141,901</u> | <u>\$ 8,751</u>                                   |
| Expenditures:  |                         |                     |                     |   |
| Current:   |                         |                     |                     |   |
| Sanitation   | \$ 933,074              | \$ 338,419          | \$ 543,460          | \$ ( 205,041)                                     |
| Debt service:  |                         |                     |                     |   |
| Principal  | 763,498                 | 763,498             | 440,000             | 323,498   |
| Interest and fiscal charges                          | -                       | -                   | 323,498             | ( 323,498)  |
| Capital outlay                                       | <u>-</u>                | <u>52,000</u>       | <u>4,878</u>        | <u>47,122</u>                                     |
| Total expenditures                                   | <u>\$ 1,696,572</u>     | <u>\$ 1,153,917</u> | <u>\$ 1,311,836</u> | <u>\$ ( 157,919)</u>                              |
| Excess (deficiency) of<br>revenues over expenditures | \$ ( 563,422)           | \$ ( 20,767)        | \$ ( 169,935)       | \$ ( 149,168)                                     |
| Other financing sources (uses):                      |                         |                     |                     |   |
| Operating transfers in (out)                         | <u>-</u>                | <u>135,000</u>      | <u>( 38,432)</u>    | <u>( 173,432)</u>                                 |
| Net change in fund balance                           | \$ ( 563,422)           | \$ 114,233          | \$ ( 208,367)       | \$ ( 322,600)                                     |
| Fund balance - reserved -<br>beginning               | <u>1,110,515</u>        | <u>1,110,515</u>    | <u>4,161,192</u>    | <u>3,050,677</u>                                  |
| Fund balance - reserved - ending                     | <u>\$ 547,093</u>       | <u>\$ 1,224,748</u> | <u>\$ 3,952,825</u> | <u>\$ 2,728,077</u>                               |

CITY OF BASTROP, LOUISIANA

NOTE TO BUDGETARY COMPARISON SCHEDULES  
As of and for the Year Ended June 30, 2005

Note 1. Revenues and Expenditures - Budget and Actual

Actual revenues and other financing sources of the Sewer Use Fee Fund (special revenue fund) of \$1,141,901 were less than budgeted revenues and other financing sources of \$1,268,150 for the year ended June 30, 2005 by \$126,249 or 9.96%. In the same fund, actual expenditures and other financing uses of \$1,350,268 exceeded budgeted expenditures and other financing uses of \$1,153,917 for the year ended June 30, 2005 by \$196,351 or 17.02%. The significant amount of the unfavorable revenues and other financing sources variance resulted from budgeted operating transfers not being received by the Sewer Use Fee Fund while the significant unfavorable expenditures and other financing uses variance resulted from inadequate appropriations for maintenance and supplies.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BASTROP, LOUISIANA  
 SCHEDULE OF GENERAL FUND REVENUES -  
 BUDGET AND ACTUAL  
 As of and for the Year Ended June 30, 2005

|                              | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|------------------------------|-------------------------|---------------------|---------------------|---|
|                              | <u>Original</u>         | <u>Final</u>        |                     |   |
| <b>Taxes:</b>                |                         |                     |                     |   |
| Ad valorem                   | \$ 2,642,000            | \$ 3,062,000        | \$ 3,080,902        | \$ 18,902   |
| Sales                        | 5,000,000               | 5,000,000           | 4,826,484           | ( 173,516)  |
| Gross receipts               | 309,478                 | 309,478             | 292,204             | ( 17,274)   |
| Costs and interest           | <u>15,000</u>           | <u>15,000</u>       | <u>16,587</u>       | <u>1,587</u>                                      |
|                              | <u>\$ 7,966,478</u>     | <u>\$ 8,386,478</u> | <u>\$ 8,216,177</u> | <u>\$( 170,301)</u>                               |
| <b>Licenses and permits:</b> |                         |                     |                     |   |
| Business licenses            | \$ 230,000              | \$ 230,000          | \$ 240,112          | \$ 10,112   |
| Insurance licenses           | 175,000                 | 175,000             | 177,222             | 2,222   |
| Building permits             | 15,000                  | 40,000              | 42,413              | 2,413   |
| Beer and liquor permits      | 15,000                  | 15,000              | 10,850              | ( 4,150)  |
| Other permits                | <u>14,510</u>           | <u>14,510</u>       | <u>11,132</u>       | <u>( 3,378)</u>                                   |
|                              | <u>\$ 449,510</u>       | <u>\$ 474,510</u>   | <u>\$ 481,729</u>   | <u>\$ 7,219</u>                                   |
| <b>Intergovernmental:</b>    |                         |                     |                     |   |
| Fire insurance               | \$ -                    | \$ -                | \$ 35,581           | \$ 35,581   |
| Bastrop Fire District Two    | 471,380                 | 590,968             | 343,351             | ( 247,617)  |
| Grants                       | 13,750                  | 638,029             | 937,432             | 299,403   |
| Supplemental pay             | 338,400                 | 338,400             | 326,730             | ( 11,670)   |
| Other                        | <u>125,076</u>          | <u>125,076</u>      | <u>91,756</u>       | <u>( 33,320)</u>                                  |
|                              | <u>\$ 948,606</u>       | <u>\$ 1,692,473</u> | <u>\$ 1,734,850</u> | <u>\$ 42,377</u>                                  |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF GENERAL FUND REVENUES -  
BUDGET AND ACTUAL (Continued)

As of and for the Year Ended June 30, 2005

|   | <u>Budgeted Amounts</u> |                      | <u>Actual</u>        | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|-------------------------|----------------------|----------------------|---|
|   | <u>Original</u>         | <u>Final</u>         |                      |   |
| Fees, charges, and<br>commissions for services: |                         |                      |                      |   |
| Cemetery lot sales                              | \$ 45,000               | \$ 45,000            | \$ 48,876            | \$ 3,876  |
| City court and police jury                      | 24,480                  | 24,480               | 24,481               | 1   |
| Recreation fees                                 | 25,500                  | 25,500               | 22,718               | ( 2,782)  |
| Sewer fees                                      | 54,500                  | 54,500               | 52,837               | ( 1,663)  |
| Municipal center                                | 75,000                  | 75,000               | 35,791               | ( 39,209)   |
| Other charges                                   | <u>26,540</u>           | <u>39,540</u>        | <u>50,093</u>        | <u>10,553</u>                                     |
|   | <u>\$ 251,020</u>       | <u>\$ 264,020</u>    | <u>\$ 234,796</u>    | <u>\$ ( 29,224)</u>                               |
| Fines and forfeitures:                          |                         |                      |                      |   |
| Court and parking                               | <u>\$ 206,030</u>       | <u>\$ 206,030</u>    | <u>\$ 163,378</u>    | <u>\$ ( 42,652)</u>                               |
| Interest and miscellaneous:                     |                         |                      |                      |   |
| Interest  | \$ 15,000               | \$ 15,000            | \$ 14,127            | \$ ( 873)   |
| Other   | <u>205,750</u>          | <u>205,750</u>       | <u>204,608</u>       | <u>( 1,142)</u>                                   |
|   | <u>\$ 220,750</u>       | <u>\$ 220,750</u>    | <u>\$ 218,735</u>    | <u>\$ ( 2,015)</u>                                |
| Total general fund revenues                     | <u>\$ 10,042,394</u>    | <u>\$ 11,244,261</u> | <u>\$ 11,049,665</u> | <u>\$ ( 194,596)</u>                              |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF GENERAL FUND CURRENT EXPENDITURES -  
BUDGET AND ACTUAL

As of and for the Year Ended June 30, 2005

|                              | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | Variance -                        |
|------------------------------|-------------------------|---------------------|---------------------|-----------------------------------|
|                              | <u>Original</u>         | <u>Final</u>        |                     | Favorable<br><u>(Unfavorable)</u> |
| General government:          |                         |                     |                     |                                   |
| Salaries                     | \$ 773,891              | \$ 773,891          | \$ 768,062          | \$ 5,829                          |
| Payroll taxes and retirement | 275,057                 | 173,305             | 164,910             | 8,395                             |
| Street and traffic lights    | 192,651                 | 155,000             | 168,747             | ( 13,747)                         |
| Utilities and telephone      | 145,350                 | 145,350             | 137,193             | 8,157                             |
| Office                       | 18,550                  | 18,550              | 24,966              | ( 6,416)                          |
| Vehicle                      | 7,100                   | 7,100               | 14,611              | ( 7,511)                          |
| Maintenance and supplies     | 21,750                  | 21,750              | 69,576              | ( 47,826)                         |
| Insurance                    | 559,454                 | 661,206             | 659,741             | 1,465                             |
| Travel                       | 25,000                  | 25,000              | 13,794              | 11,206                            |
| Mainstreet                   | 8,000                   | 55,815              | 81,455              | ( 25,640)                         |
| Other                        | 133,412                 | 177,412             | 309,965             | ( 132,553)                        |
| Total general government     | <u>\$ 2,160,215</u>     | <u>\$ 2,214,379</u> | <u>\$ 2,413,020</u> | <u>\$( 198,641)</u>               |
| Public safety:               |                         |                     |                     |                                   |
| Police:                      |                         |                     |                     |                                   |
| Salaries                     | \$ 1,604,200            | \$ 1,604,200        | \$ 1,522,969        | \$ 81,231                         |
| Payroll taxes and retirement | 340,700                 | 340,700             | 311,309             | 29,391                            |
| Insurance                    | 265,000                 | 214,000             | 218,523             | ( 4,523)                          |
| Telephone                    | -                       | 20,000              | 29,744              | ( 9,744)                          |
| Office                       | 15,000                  | 15,000              | 10,323              | 4,677                             |
| Vehicle                      | 59,500                  | 59,500              | 66,932              | ( 7,432)                          |
| Maintenance and supplies     | 21,000                  | 21,000              | 63,255              | ( 42,255)                         |
| Housing inmates              | 64,000                  | 64,000              | 60,638              | 3,362                             |
| Uniforms and laundry         | 46,000                  | 10,000              | 10,415              | ( 415)                            |
| Other                        | 71,048                  | 51,048              | 18,915              | 32,133                            |
| Total police                 | <u>\$ 2,486,448</u>     | <u>\$ 2,399,448</u> | <u>\$ 2,313,023</u> | <u>\$ 86,425</u>                  |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF GENERAL FUND CURRENT EXPENDITURES -  
BUDGET AND ACTUAL (Continued)

As of and for the Year Ended June 30, 2005

|                                   | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance -</u>                        |
|-----------------------------------|-------------------------|---------------------|---------------------|--|
|                                   | <u>Original</u>         | <u>Final</u>        |                     | <u>Favorable</u><br><u>(Unfavorable)</u> |
| <b>Public safety (continued):</b> |                         |                     |                     |  |
| <b>Fire:</b>                      |                         |                     |                     |  |
| Salaries                          | \$ 1,614,144            | \$ 1,614,144        | \$ 1,614,197        | \$( 53)                                  |
| Payroll taxes and retirement      | 419,074                 | 519,746             | 646,491             | ( 126,745)                               |
| Insurance                         | 309,193                 | 267,193             | 274,308             | ( 7,115)                                 |
| Utilities and telephone           | 43,000                  | 43,000              | 38,474              | 4,526                                    |
| Vehicle                           | 26,000                  | 26,000              | 45,014              | ( 19,014)                                |
| Maintenance and supplies          | 40,500                  | 40,500              | 53,217              | ( 12,717)                                |
| Uniforms and laundry              | 25,000                  | 25,000              | 23,028              | 1,972                                    |
| Other                             | 124,884                 | 28,100              | 9,018               | 19,082                                   |
| Total fire                        | <u>\$ 2,601,795</u>     | <u>\$ 2,563,683</u> | <u>\$ 2,703,747</u> | <u>\$( 140,064)</u>                      |
| Total public safety               | <u>\$ 5,088,243</u>     | <u>\$ 4,963,131</u> | <u>\$ 5,016,770</u> | <u>\$( 53,639)</u>                       |
| <b>Public works:</b>              |                         |                     |                     |  |
| <b>Highways and streets:</b>      |                         |                     |                     |  |
| Salaries                          | \$ 360,983              | \$ 360,983          | \$ 342,129          | \$ 18,854                                |
| Payroll taxes and retirement      | 76,841                  | 76,841              | 72,670              | 4,171                                    |
| Insurance                         | 71,647                  | 71,647              | 63,974              | 7,673                                    |
| Utilities and telephone           | 9,500                   | 9,500               | 6,745               | 2,755                                    |
| Vehicle                           | 36,700                  | 36,700              | 42,749              | ( 6,049)                                 |
| Maintenance and supplies          | 72,250                  | 72,250              | 103,171             | ( 30,921)                                |
| Other                             | 3,500                   | 3,500               | 3,992               | ( 492)                                   |
| Total highways and streets        | <u>\$ 631,421</u>       | <u>\$ 631,421</u>   | <u>\$ 635,430</u>   | <u>\$( 4,009)</u>                        |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF GENERAL FUND CURRENT EXPENDITURES -  
BUDGET AND ACTUAL (Continued)

As of and for the Year Ended June 30, 2005

|                              | <u>Budgeted Amounts</u> |                   | <u>Actual</u>     | Variance -<br>Favorable<br>(Unfavorable) |
|------------------------------|-------------------------|-------------------|-------------------|--|
|                              | <u>Original</u>         | <u>Final</u>      |                   |  |
| Public works (continued):    |                         |                   |                   |  |
| Health:                      |                         |                   |                   |  |
| Salaries                     | \$ 59,920               | \$ 59,920         | \$ 60,978         | \$( 1,058)                               |
| Payroll taxes and retirement | 9,980                   | 9,980             | 9,965             | 15                                       |
| Insurance                    | 12,635                  | 12,635            | 10,963            | 1,672                                    |
| Utilities and telephone      | 7,400                   | 7,400             | 7,764             | ( 364)                                   |
| Vehicle                      | 3,000                   | 3,000             | 5,010             | ( 2,010)                                 |
| Maintenance and supplies     | 42,950                  | 42,950            | 43,289            | ( 339)                                   |
| Other                        | <u>1,200</u>            | <u>1,200</u>      | <u>1,103</u>      | <u>97</u>                                |
| Total health                 | <u>\$ 137,085</u>       | <u>\$ 137,085</u> | <u>\$ 139,072</u> | <u>\$( 1,987)</u>                        |
| Recreation:                  |                         |                   |                   |  |
| Salaries                     | \$ 338,500              | \$ 338,500        | \$ 356,034        | \$( 17,534)                              |
| Payroll taxes and retirement | 61,552                  | 61,552            | 66,094            | ( 4,542)                                 |
| Insurance                    | 41,294                  | 41,294            | 36,832            | 4,462                                    |
| Utilities and telephone      | 78,950                  | 78,950            | 80,603            | ( 1,653)                                 |
| Vehicle                      | 12,800                  | 12,800            | 11,791            | 1,009                                    |
| Maintenance and supplies     | 70,700                  | 70,700            | 60,886            | 9,814                                    |
| Other                        | <u>10,450</u>           | <u>10,450</u>     | <u>13,404</u>     | <u>( 2,954)</u>                          |
| Total recreation             | <u>\$ 614,246</u>       | <u>\$ 614,246</u> | <u>\$ 625,644</u> | <u>\$( 11,398)</u>                       |
| Cemetery:                    |                         |                   |                   |  |
| Salaries                     | \$ 136,205              | \$ 136,205        | \$ 110,287        | \$ 25,918                                |
| Payroll taxes and retirement | 28,994                  | 28,994            | 23,953            | 5,041                                    |
| Insurance                    | 26,663                  | 26,663            | 24,701            | 1,962                                    |
| Vehicle                      | 5,900                   | 5,900             | 7,752             | ( 1,852)                                 |
| Maintenance and supplies     | 7,600                   | 7,600             | 4,926             | 2,674                                    |
| Other                        | <u>3,100</u>            | <u>3,100</u>      | <u>2,771</u>      | <u>329</u>                               |
| Total cemetery               | <u>\$ 208,462</u>       | <u>\$ 208,462</u> | <u>\$ 174,390</u> | <u>\$ 34,072</u>                         |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF GENERAL FUND CURRENT EXPENDITURES -  
BUDGET AND ACTUAL (Continued)

As of and for the Year Ended June 30, 2005

|   | <u>Budgeted Amounts</u> |                     | <u>Actual</u>        | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|-------------------------|---------------------|----------------------|---|
|   | <u>Original</u>         | <u>Final</u>        |                      |   |
| Public works (continued):               |                         |                     |                      |   |
| Building maintenance:                   |                         |                     |                      |   |
| Salaries                                | \$ 100,855              | \$ 100,855          | 99,260               | \$ 1,595  |
| Payroll taxes and retirement            | 21,470                  | 21,470              | 20,904               | 566   |
| Insurance                               | 20,070                  | 20,070              | 17,301               | 2,769   |
| Vehicle                                 | 2,600                   | 2,600               | 4,103                | ( 1,503)  |
| Maintenance and supplies                | 37,200                  | 37,200              | 50,873               | ( 13,673)   |
| Other                                   | 50                      | 50                  | 49                   | 1   |
| Total building maintenance              | <u>\$ 182,245</u>       | <u>\$ 182,245</u>   | <u>\$ 192,490</u>    | <u>\$( 10,245)</u>                                |
| Total public works                      | <u>\$ 1,773,459</u>     | <u>\$ 1,773,459</u> | <u>\$ 1,767,026</u>  | <u>\$ 6,433</u>                                   |
| Sanitation:                             |                         |                     |                      |   |
| Sewer:                                  |                         |                     |                      |   |
| Service contract                        | \$ 877,443              | \$ 877,443          | 933,395              | \$( 55,952)                                       |
| Other                                   | 16,000                  | 16,000              | 17,198               | ( 1,198)  |
| Total sanitation                        | <u>\$ 893,443</u>       | <u>\$ 893,443</u>   | <u>\$ 950,593</u>    | <u>\$( 57,150)</u>                                |
| Total general fund current expenditures | <u>\$ 9,915,360</u>     | <u>\$ 9,844,412</u> | <u>\$ 10,147,409</u> | <u>\$( 302,997)</u>                               |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF SEWER USE FEE FUND REVENUES -  
BUDGET AND ACTUAL

As of and for the Year Ended June 30, 2005

|  | <u>Budgeted Amounts</u> |                         | <u>Actual</u>           | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|-------------------------|-------------------------|---|
|  | <u>Original</u>         | <u>Final</u>            |                         |   |
| Fees, charges, and<br>commissions for<br>services: |                         |                         |                         |   |
| Sewer fees   | \$ <u>1,098,012</u>     | \$ <u>1,098,012</u>     | \$ <u>1,060,453</u>     | \$ <u>( 37,559)</u>                               |
| Interest and<br>miscellaneous:                     |                         |                         |                         |   |
| Interest   | \$ 35,138               | \$ 35,138               | \$ 80,888               | \$ 45,750   |
| Other  | -                       | -                       | 560                     | 560   |
|  | \$ <u>35,138</u>        | \$ <u>35,138</u>        | \$ <u>81,448</u>        | \$ <u>46,310</u>                                  |
| <br>Total sewer use fee fund<br>revenues           | <br>\$ <u>1,133,150</u> | <br>\$ <u>1,133,150</u> | <br>\$ <u>1,141,901</u> | <br>\$ <u>8,751</u>                               |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF SEWER USE FEE FUND CURRENT EXPENDITURES -  
BUDGET AND ACTUAL

As of and for the Year Ended June 30, 2005

|  | <u>Budgeted Amounts</u> |                   | <u>Actual</u>     | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|-------------------|-------------------|---|
|  | <u>Original</u>         | <u>Final</u>      |                   |   |
| Sanitation:                                      |                         |                   |                   |   |
| Sewer:   |                         |                   |                   |   |
| Salaries   | \$ 61,688               | \$ 11,208         | \$ 11,208         | \$ -  |
| Payroll taxes and retirement                     | 12,424                  | 2,115             | 2,114             | 1   |
| Office   | 2,500                   | -                 | -                 | -   |
| Maintenance and supplies                         | 841,915                 | 324,196           | 527,823           | ( 203,627)  |
| Insurance  | 11,547                  | 700               | 702               | ( 2)  |
| Other  | 3,000                   | 200               | 1,613             | ( 1,413)  |
|  | <u>          </u>       | <u>          </u> | <u>          </u> | <u>          </u>                                 |
| Total sewer use fee fund<br>current expenditures | <u>\$ 933,074</u>       | <u>\$ 338,419</u> | <u>\$ 543,460</u> | <u>\$ ( 205,041)</u>                              |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF MAYOR'S AND ALDERMEN'S COMPENSATION  
As of and for the Year Ended June 30, 2005

The schedule of compensation paid to the mayor and aldermen is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of the mayor and aldermen is included in the general administrative expenditures of the General Fund. The mayor and aldermen receive compensation pursuant to Louisiana Revised Statute 404.1.

|   |                   |
|---|-------------------|
| Clarence Hawkins, Mayor                   | \$ 65,566         |
| Betty Alford-Olive, Alderman              | 9,895             |
| Willie Lenoir, Alderman                   | 9,895             |
| Arthur Hamlin, Alderman                   | 8,926             |
| Richard Heusel, III, Alderman             | 8,993             |
| Beulah Robinson, Alderman                 | <u>8,926</u>      |
| Total mayor's and aldermen's compensation | <u>\$ 112,201</u> |

CITY OF BASTROP, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
As of and for the Year Ended June 30, 2005

| <u>Federal Grantor/Pass-Through<br/>Grantor/Program Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity<br/>Identifying<br/>Number</u> | <u>Expenditures</u>                  |
|--|------------------------------------|---|--------------------------------------|
| United States Department of Justice/<br>Louisiana Commission on Law<br>Enforcement/<br>Law Enforcement Equipment/<br>Bulletproof Vests   | 16.592<br>16.592                   | Z-03-2-010<br>2004BUBX04024156                            | \$ 1,980<br>9,975                    |
| United States Department of Justice/<br>Office of Community Oriented<br>Policing Services/<br>Public Safety Partnership and Community<br>Policing  | 16.710                             | 2004CKWX0093  | <u>583,405</u>                       |
| Total - United States Department of<br>Justice   |                                    |   | <u>\$ 595,360</u>                    |
| United States Department of Homeland<br>Security/<br>State and Local Domestic Preparedness<br>Equipment Support/<br>State Homeland Security<br>State Homeland Security<br>Law Enforcement Terrorism Prevention | 97.004<br>97.004<br>97.076         | 2003SHSGP<br>Various<br>2004-GE-T4-0004LETPP              | \$ 28,564<br>105,340<br><u>4,298</u> |
| Total - United States Department of<br>Homeland Security   |                                    |   | <u>\$ 138,202</u>                    |

(continued)

CITY OF BASTROP, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
As of and for the Year Ended June 30, 2005

| <u>Federal Grantor/Pass-Through<br/>Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity<br/>Identifying<br/>Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|---------------------|
| Federal Emergency Management Agency/<br>Assistance to Firefighters Grant Program/<br>Fire Operations and Firefighters Safety                | 83.554                             | EMW-2003-FS-13444   | 130,388             |
| United States Department of Transportation/<br>Federal Aviation Administration/<br>Airport Improvement Program                              | 20.106                             | 3-22-0004-008   | 47,462              |
| United States Department of Housing and<br>Urban Development/<br>Louisiana Division of Administration/<br>Community Development Block Grant | 14.228                             | 596699  | 49,893              |
| United States Department of Interior/<br>National Park Service<br>Historic Preservation Fund/<br>Main Street Program                        | 15.904                             | 22-00-15321   | <u>5,750</u>        |
| Total expenditures of federal awards  |                                    |   | <u>\$ 967,055</u>   |

See note to schedule of expenditures of federal awards.

CITY OF BASTROP, LOUISIANA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
As of and for the Year Ended June 30, 2005

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of City of Bastrop, Louisiana, and is being presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the financial statements.

# HILL, INZINA & COMPANY

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INDEPENDENT AUDITOR'S 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 Clarence W. Hawkins, Mayor,  
and Members of the Board of Aldermen  
City of Bastrop, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Bastrop, Louisiana (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 21, 2005. 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-5, and 2005-6.

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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 consider all of the reportable conditions described above to be material weaknesses.

#### 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2005-2, 2005-3, 2005-4, and 2005-7.

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

s\HILL, INZINA & CO.

October 21, 2005

# HILL, INZINA & COMPANY

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Clarence W. Hawkins, Mayor,  
and Members of the Board of Aldermen  
City of Bastrop, Louisiana

### Compliance

We have audited the compliance of City of Bastrop, 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 June 30, 2005. The City's major federal program is identified in the summary of auditor's 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, City of Bastrop, Louisiana, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

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### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 the 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 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 compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the 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. However, we consider the reportable condition described above to be a material weakness.

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

sHILL, INZINA & CO.

October 21, 2005

CITY OF BASTROP, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
WITH MANAGEMENT'S RESPONSE AND PLANNED CORRECTIVE ACTION  
As of and for the Year Ended June 30, 2005

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Bastrop, Louisiana (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 21, 2005. We conducted our audit 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 the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit of the financial statements as of June 30, 2005 resulted in an adverse opinion.

Section I - Summary of Auditor's Reports

- a. 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*

Internal Control

Material Weaknesses  Yes  No      Reportable Conditions  Yes  No

Compliance

Material to Financial Statements  Yes  No

- b. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Type of Opinion on Compliance for Major Programs      Unqualified       Qualified   
Disclaimer       Adverse

Internal Control

Material Weaknesses  Yes  No      Reportable Conditions  Yes  No

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?  Yes  No

c. Identification of Major Program:

CFDA Number 16.710  
Public Safety Partnership and Community Policing

Dollar threshold used to distinguish between Type A and Type B Programs \$500,000  
Is the auditee a 'low risk' auditee, as defined by OMB Circular A-133?  Yes  No

Section II - Financial Statement Findings

- 2005-1 Inadequate Segregation of Duties (initial citing as of and for the ended June 30, 1985)
- Criteria: Adequate segregation of duties is essential to a proper internal control structure.
- Condition: The segregation of duties is inadequate to provide effective internal control.
- Cause: The condition is due to economic and space limitations.
- Effect: Not determined.
- Recommendation: No action is recommended.
- Management's response and planned corrective action: We concur in the finding, but it is not economically feasible nor does space allow for corrective action to be taken.

- 2005-2 Noncompliance with Local Government Budget Act (initial citing)
- Criteria: A comprehensive budget presenting a complete financial plan for each fiscal year shall be prepared for the general fund and each special revenue fund. Such adopted budgets constitute the authority of the chief executive or administrative officers to incur liabilities and authorizes expenditures from the respective funds during the fiscal year.
- Condition: A budget was not prepared for the Sales Tax Fund for the year ended June 30, 2005 although liabilities were incurred and expenditures made from the respective funds during the year ended June 30, 2005.

Cause: The chief executive or administrative officers were not aware that a budget had to be adopted as the Sales Tax Fund did not begin receiving revenues, incurring liabilities, and expending funds until February 2005.

Effect: The City is in violation of the Local Government Budget Act.

Recommendation: A budget should be adopted for the general fund and each special revenue fund before liabilities are incurred or expenditures made.

Management's  
response and  
planned cor-  
rective action:

We concur in the finding. Completion and submission of future budgets will be timely.

2005-3 Noncompliance with Local Government Budget Act (initial citing as of and for the year ended June 30, 2003)

Criteria: The Local Government Budget Act requires that the chief executive officer or equivalent notify in writing the governing authority during the year when actual receipts and other financing sources plus projected revenue collections and other financing sources for the year fail to meet budgeted revenues and other financing sources by 5% or more, or when actual expenditures and other financing uses plus projected expenditures and other financing uses to year end exceed budgeted expenditures and other financing uses by 5% or more.

Condition: Actual revenues and other financing sources of the Sewer Use Fee Fund of \$1,141,901 were less than budgeted revenues and other financing sources of \$1,268,150 by \$126,249 or 9.96%. In the same fund, actual expenditures and other financing uses of \$1,350,268 exceeded budgeted expenditures and other financing uses of \$1,153,917 by \$196,351 or 17.02%.

Cause: The budget was not monitored and written notification made by the chief executive or administrative official to the governing authority that budget amendments were necessary.

Effect: The City is in violation of the Local Government Budget Act.

**Recommendation:** The chief executive officer or the equivalent should notify the governing authority in writing during the year when actual expenditures and other financing uses plus projected expenditures and other financing uses to year end exceed budgeted expenditures and other financing uses by 5% or more. The governing authority should amend the budget when notified.

**Management's response and planned corrective action:**

The chief executive officer concurs with the finding and will periodically monitor the budget and notify the governing authority in writing as amendments are required.

2005-4 Asset Management (initial citing as of and for the year ended June 30, 2001)

**Criteria:** LSA-RS 24:515 and/or 39:321-332 as applicable, require that the City maintain records of its fixed assets and movable property. Also, GASB Statement No. 34 requires the City to record capital assets and depreciation in the government-wide financial statements.

**Condition:** The City is in the process of compiling an inventory listing of capital assets but such listing was not completed as of the date of this report.

**Cause:** Additional time will be needed to accurately complete the records. The City did not develop in previous years a strategy to ensure retention of accurate, complete, and up-to-date records of capital assets.

**Effect:** Capital assets and depreciation of governmental activities have not been recorded.

**Recommendation:** Time should be taken and a responsible party assigned to completing the inventory records with accurate historical costs.

**Management's response and planned corrective action:**

We concur in the finding and have assigned a responsible party to timely and accurately complete the inventory records.

2005-5 Delinquency of Payment Collections on Loans Receivable (initial citing as of and for the year ended June 30, 2001)

**Criteria:** Some of the loans made to local businesses had provision for payment by economic impact credits if the businesses employed the required number of full-time, local employees during the stated consecutive quarters of the 2003 calendar year.

The individual promissory notes made in previous years state that failure to pay any installment when due, shall at the option of the holder, mature all remaining unpaid installments.

**Condition:** Failure by all parties to meet the defined economic impact credits and/or ceasing operations resulted in initial payments becoming due on November 1, 2003 or January 1, 2004. As of June 30, 2005, only one monthly payment had been received from one party.

All of the individual promissory notes as of June 30, 2005 had payments in arrear.

As of June 30, 2005, management of the City determined that \$28,536 of other promissory notes were uncollectible and expensed the amount as bad debts.

**Cause:** The City has not taken legal action to enforce repayment of the loans to local businesses upon the parties failing to meet the defined economic impact credits and/or ceasing operations, nor has the City opted to mature all remaining unpaid installments of the promissory notes upon failure to pay any installment when due.

**Effect:** City funds were not collected and others remain susceptible to not being collected.

**Recommendation:** We recommend that the City promptly take legal action to enforce the payment provisions of all delinquent loans and to not make any other similar loans.

**Management's response and planned corrective action:** We concur in the finding and will continue to seek legal counsel to enforce the provisions. Upon legal counsel's recommendations, the uncollectible loans, resulting from bankruptcy, etc., were expensed as bad debts.

2005-6 Improvement of Controls Over Expenditures/Disbursements (initial citing)

Criteria: Management is responsible for establishing internal control policies and procedures that provide reasonable assurance that assets are safeguarded against loss resulting from unauthorized use and that transactions are executed in accordance with management's authorization.

Condition: Three disbursements examined (totaling \$1,225) out of a total of 17 disbursements examined (18%) (totaling \$23,258) did not have purchase orders issued, or were supported by purchase orders that did not include all items acquired or were dated after the date of the original invoice.

Cause: Employees of the City have not accepted the value of such internal control procedures.

Effect: The failure to adhere to internal controls over cash disbursements could result in a loss of assets from unauthorized use or disposition or from transactions that are not in accordance with management's authorization.

Recommendation: We recommend that purchase orders be timely issued for all applicable disbursements to provide evidence that disbursements are valid expenditures of the City.

Management's response and planned corrective action:

We concur in the findings and the Mayor will immediately address this matter in a memorandum to all employees of the City.

2005-7 Lack of State Bond Commission Approval (initial citing)

Criteria: Pursuant to Louisiana Revised Statutes 39:1410.6-1410.65, no municipality shall have authority to borrow money, incur debt, or to issue bonds, or other evidences of debt without the consent and approval of the State Bond Commission.

**Condition:** The City proposed to Firefighters' Retirement System of Louisiana to pay retirement contributions payable as of June 30, 2005 over a period of five years. The City commenced in July 2005 and continues to make, as of the date of this report, such proposed monthly payments, awaiting the approval of the proposal by Firefighters' Retirement System, without the consent and approval of the State Bond Commission.

**Cause:** City's management was not aware that consent and approval of the State Bond Commission might be required for this type of funding arrangement.

**Effect:** The City may be in violation of the statutes.

**Recommendation:** Upon the auditors receiving advice from the Attorney General's office, for the City's legal protection, the City should have its legal counsel and that of Firefighters' Retirement System of Louisiana draft a formal proposal, have legal counsel determine if debt was incurred, and if so, request consent and approval of the State Bond Commission.

**Management's response and planned corrective action:** We concur in the finding and approval will be obtained for future debt related obligations.

### Section III - Federal Awards Finding

2005-1 Inadequate Segregation of Duties  
(See 2005-1 in Section II.)

**Program:** Public Safety Partnership and Community Policing

### Section IV - Management Letter

None issued.

CITY OF BASTROP, LOUISIANA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

As of and for the Year Ended June 30, 2005

Section I - Internal Control and Compliance Material to Financial Statements

2004-1 Inadequate Segregation of Duties

Adequate segregation of duties is essential to a proper internal control structure. Unresolved - 2005-1.

2004-2 Noncompliance with Local Government Budget Act

All action necessary to adopt and finalize the budget must be completed by the prior year end. Unresolved - 2005-2.

2004-3 Noncompliance with Local Government Budget Act

The chief executive officer, or equivalent, should notify in writing the governing authority during the year when actual receipts plus projected revenue collections for the year fail to meet budgeted revenues by 5% or more, or when actual expenditures plus projected expenditures to year end exceed budgeted expenditures by 5% or more. Unresolved - 2005-3.

2004-4 Asset Management

State statutes require that the City maintain records of its fixed assets and movable property. Unresolved - 2004-4.

2004-5 Delinquency of Payment Collections on Loans Receivable

The City has not opted to mature all remaining unpaid installments of the promissory notes upon failure to pay any installment when due. Unresolved - 2005-5.

2004-6 Accumulated Compensated Absences

The City is not strictly adhered to its stated policy as to which employees may earn compensatory time and the proper documentation and approval of the earning and usage of such time.

Resolved.

2004-7 Violation of State Statutes

The City's annual audit was not completed and submitted within the required time frame.

Resolved.

Section II - Federal Awards Finding

2004-1 Inadequate Segregation of Duties

Unresolved - 2005-1.

Section III - Management Letter

None issued.