

**Town of Zwolle, Louisiana**  
**FINANCIAL REPORT**  
**YEAR ENDED MAY 31, 2010**



The CPA. Never Underestimate The Value.<sup>SM</sup>

**Eugene W. Fremaux II**  
Certified Public Accountant

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 12/29/10

TOWN OF ZWOLLE, LOUISIANA  
 ZWOLLE, LOUISIANA  
 MAY 31, 2010

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Roger Lopez, Mayor  
and Board of Aldermen  
Town of Zwolle, Louisiana

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Zwolle, Louisiana, as of May 31, 2010 and for the year then ended, which collectively comprise the basic financial statements of the Town of Zwolle, Louisiana's primary government, as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Zwolle, Louisiana, as of May 31, 2010, the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 and the budgetary comparison information on page 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2010, on my consideration of the Town of Zwolle, Louisiana's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 my audit.



EUGENE W. FREMAUX II, CPA  
November 30, 2010



The CPA. Never Underestimate The Value<sup>SM</sup>

**TOWN OF ZWOLLE, LOUISIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MAY 31, 2010**

This section of the Town's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended May 31, 2010. Please read it in conjunction with the Town's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Town's net assets increased 10% during the year to \$6,362,416.
- Program and general revenues amounted to \$1,770,517, an increase of \$352,782.
- Expenses for the year amounted to \$1,215,357, an increase of \$84,997.
- The Town's utility fund had a net operating gain of \$146,077 for the year, an increase of \$136,115.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of three parts:

- Management's discussion and analysis
- Basic financial statements
- Supplementary information

The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town's operations in more detail than the government-wide statements. The Town has a general fund and a proprietary (utility) fund.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
Current and other assets	\$ 1,193,556	\$ 1,078,176	\$ 1,522,501	\$ 620,155
Capital assets, net	1,179,559	1,189,520	3,988,592	3,943,929
<b>Total assets</b>	<b>2,373,115</b>	<b>2,267,696</b>	<b>5,511,093</b>	<b>4,564,084</b>
Current and other liabilities	128,136	107,810	589,863	70,705
Long-term debt	2,453	16,633	801,340	829,376
<b>Total liabilities</b>	<b>130,589</b>	<b>124,443</b>	<b>1,391,203</b>	<b>900,081</b>
<b>Net Assets:</b>				
Invested in capital assets	1,179,559	1,159,598	3,161,234	3,221,990
Restricted			81,002	80,860
Unrestricted	1,062,967	983,655	877,654	361,153
<b>Total net assets</b>	<b>2,242,526</b>	<b>2,143,253</b>	<b>4,119,890</b>	<b>3,664,003</b>
<b>Total liabilities &amp; net assets</b>	<b>\$ 2,373,115</b>	<b>\$ 2,267,696</b>	<b>\$ 5,511,093</b>	<b>\$ 4,564,084</b>

The Town's net assets increased \$155,160 to \$6,362,416, during the year due primarily to revenues exceeding expenses in both governmental and business type activities.

TOWN OF ZWOLLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MAY 31, 2010

Condensed Statement of Activities

	Governmental Activities		Business-type Activities	
	Year Ended		Year Ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
<b>Expenses:</b>				
General government	\$ (161,597)	\$ (142,735)		
Public Safety	(337,548)	(299,175)		
Highways and streets	(203,672)	(134,471)		
Public works	(61,707)	(66,957)		
Recreation	(55,205)	(70,855)		
Interest on long-term debt	(3,104)	(5,385)		
Depreciation-unallocated	(2,432)	(2,932)		
Total governmental activities	<u>(825,265)</u>	<u>(722,510)</u>		
Business-type activities-water & sewer			\$ (390,092)	\$ (407,850)
<b>Program revenues:</b>				
Charges for services	70,724	69,884	506,954	386,484
Grants and contributions	54,595	9,435	273,786	31,106
Total program revenues	<u>125,319</u>	<u>79,319</u>	<u>780,740</u>	<u>417,590</u>
<b>General revenues:</b>				
Taxes	606,830	650,608		
Licenses and permits	94,473	87,088		
Fines	97,518	67,219		
Miscellaneous	60,398	105,108	5,239	10,803
Transfers	(60,000)	(95,000)	60,000	95,000
Total general revenues	<u>799,219</u>	<u>815,023</u>	<u>65,239</u>	<u>105,803</u>
Change in net assets	<u>\$ 99,273</u>	<u>\$ 171,832</u>	<u>\$ 455,887</u>	<u>\$ 115,543</u>

Overall government revenues increased by 25% to \$1,770,517 this year, primarily due to the receipt of grant funds for sewer improvements.

**FINANCIAL ANALYSIS OF THE FUNDS**

The Town's governmental funds, comprised of the general fund, increased the fund balance \$95,945 during the year. Revenues decreased by \$4,806. Expenses increased 9%, primarily due to increased street repair and overlay activity.

The Town's utility fund increased net assets \$455,887 during the year. Operating revenues increased \$120,470 primarily due to increases in water and sewer rates in November 2008, and expenses decreased by \$15,645 due mainly to lower maintenance costs. The general fund transferred \$60,000 of sales tax proceeds to the utility fund to increase the utility fund's unrestricted net assets, and the utility fund received capital grants amounting to \$273,786 relating primarily to sewer treatment plant improvements.

TOWN OF ZWOLLE, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MAY 31, 2010

**CAPITAL ASSETS**

During 2010, the Town invested \$357,159 in capital assets. The majority of the amount was invested in construction in progress expenditures related to the sewer treatment improvement project and street overlay improvements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Town is dependent on (1) charges for services, and (2) ad valorem taxes, sales taxes, and franchise fees for approximately 32% and 46%, respectively, of the total revenues. No significant changes are expected in charges for services; however sales tax revenues are expected to increase in 2011 compared to the depressed collections in 2010 related to the depressed condition of the economy which has developed during the Fall of 2008.

Operating expenses of the Town's utility fund are expected to increase slightly in 2011; and revenues and expenses in the Town's general fund are expected to increase due to completion of a street overlay grant in 2011.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Roger Lopez, Mayor, P O Box 1038, Zwolle, LA 71486.

TOWN OF ZWOLLE  
ZWOLLE, LOUISIANA  
STATEMENT OF NET ASSETS  
MAY 31, 2010

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash	\$ 609,404	\$ 971,158	\$ 1,580,562
Investments	232,273	116,127	348,400
Due from other governments	62,443	46,698	109,141
Receivables	11,602	270,211	281,813
Due from other funds	258,325	(258,325)	
Prepaid expenses	19,509	125	19,634
Total current assets	<u>1,193,556</u>	<u>1,145,994</u>	<u>2,339,550</u>
Non-current assets:			
Restricted cash		118,182	118,182
Capital assets, net of accumulated depreciation	1,179,559	3,988,592	5,168,151
Total non-current assets	<u>1,179,559</u>	<u>4,106,774</u>	<u>5,286,333</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,373,115</u></b>	<b><u>\$ 5,252,768</u></b>	<b><u>\$ 7,625,883</u></b>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 74,418	\$ 268,340	\$ 342,758
Note payable	39,538		39,538
Current portion of long-term debt	14,180	8,993	23,173
Total current liabilities	<u>128,136</u>	<u>277,333</u>	<u>405,469</u>
Current liabilities payable from restricted assets:			
Customer deposits		37,180	37,180
Notes payable		17,025	17,025
Total current liabilities payable from restricted assets		<u>54,205</u>	<u>54,205</u>
Non-current liabilities - notes payable	<u>2,453</u>	<u>801,340</u>	<u>803,793</u>
Total non-current liabilities	<u>2,453</u>	<u>801,340</u>	<u>803,793</u>
<b>TOTAL LIABILITIES</b>	<b><u>130,589</u></b>	<b><u>1,132,878</u></b>	<b><u>1,263,467</u></b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	1,179,559	3,161,234	4,340,793
Restricted for debt service		81,002	81,002
Unrestricted	1,062,967	877,654	1,940,621
<b>TOTAL NET ASSETS</b>	<b><u>\$ 2,242,526</u></b>	<b><u>\$ 4,119,890</u></b>	<b><u>\$ 6,362,416</u></b>

TOWN OF ZWOLLE  
ZWOLLE, LOUISIANA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2010

FUNCTIONS/PROGRAMS	Program revenues			Net (Expense) Revenue and changes in Net assets		Total	
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental Activities		Business-type Activities
Governmental activities:							
General government	\$ 161,597				\$ (161,597)	\$ (161,597)	
Public safety	337,548				(337,548)	(337,548)	
Highways and streets	203,672		\$ 34,595		(169,077)	(169,077)	
Public works	61,707	\$ 70,724		20,000	9,017	9,017	
Recreation	55,205				(35,205)	(35,205)	
Interest on long-term debt	3,104				(3,104)	(3,104)	
Depreciation - Unallocated	2,432				(2,432)	(2,432)	
Total governmental activities	825,265	70,724	-	54,595	(699,946)	(699,946)	
Business-type activities-Water and Sewer	390,092	506,954	-	273,786	390,648	390,648	
Total primary government	\$ 1,215,357	\$ 577,678	\$ 328,381		(699,946)	390,648	
General revenues:							
Taxes:							
Ad valorem					62,553	62,553	
Sales taxes					470,846	470,846	
Franchise					73,431	73,431	
Licenses and permits					94,473	94,473	
Fines					97,518	97,518	
Miscellaneous					60,398	60,398	
Transfers					(60,000)	60,000	
Total general revenues					799,219	65,239	
Change in net assets					99,273	455,887	
Net assets, beginning of year					2,143,253	3,664,003	
Net assets, end of year					\$ 2,242,526	\$ 4,119,890	

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The accompanying notes are an integral part of these statements.

TOWN OF ZWOLLE  
 ZWOLLE, LOUISIANA  
 GOVERNMENTAL FUNDS BALANCE SHEET  
 MAY 31, 2010

## ASSETS

Cash	\$ 609,404
Investments	232,273
Due from other governments	62,443
Receivables	11,602
Due from other funds	258,325
Prepaid expenses	19,509
Total assets	<u>\$ 1,193,556</u>

## LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable and other liabilities	\$ 74,418
Note payable	<u>39,538</u>
Total liabilities	113,956
Fund balance - unassigned	<u>1,079,600</u>
Total liabilities and fund balance	<u>\$ 1,193,556</u>

## TOWN OF ZWOLLE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

MAY 31, 2010

Total fund balances - Governmental Funds		\$ 1,079,600
Cost of capital assets at May 31, 2010	\$ 1,694,371	
Less accumulated depreciation at May 31, 2010	<u>(514,812)</u>	1,179,559
Long-term note payable not reported in fund liabilities		<u>(16,633)</u>
Total net assets at May 31, 2010 - Governmental Activities		<u>\$ 2,242,526</u>

TOWN OF ZWOLLE  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 GENERAL FUND  
 YEAR ENDED MAY 31, 2010

Revenues:	
Taxes	\$ 606,830
Licenses and permits	94,473
Intergovernmental	58,353
Charges for services	70,724
Fines and forfeits	97,518
Miscellaneous	56,640
	<hr/>
Total revenues	984,538
	<hr/>
Expenditures:	
Current:	
General government	163,602
Public safety	328,869
Debt service	14,388
Highways and streets	234,474
Health and sanitation	61,707
Recreation	25,553
	<hr/>
Total expenditures	828,593
	<hr/>
Excess of revenues over expenditures before transfers and non-operating revenues	155,945
	<hr/>
Proceeds from financing	-
Transfer to Utility Fund	(60,000)
	<hr/>
	(60,000)
Excess of revenues over expenditures	95,945
	<hr/>
Fund balances, beginning of year	983,655
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Fund balances, end of year	\$ 1,079,600
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TOWN OF ZWOLLE  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED MAY 31, 2010

Excess of revenues over expenditures		\$ 95,945
Capital assets:		
Capital outlay capitalized	55,042	
Depreciation expense for year ended May 31, 2010	<u>(65,003)</u>	(9,961)
Principal payments on notes payable recorded as expense in fund statement		13,289
Proceeds from long term financing		<u>-</u>
Change in net assets - Governmental Activities		<u>\$ 99,273</u>

TOWN OF ZWOLLE, LOUISIANA  
 PROPRIETARY FUND (UTILITY FUND)  
 STATEMENT OF NET ASSETS  
 MAY 31, 2010

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 971,158
Investments, at cost	116,127
Accounts receivable	46,698
Due from other governments	270,211
Prepaid expenses	125
Total current assets	1,404,319
Non-current assets:	
Restricted:	
Cash and cash equivalents	118,182
Capital assets, net	3,988,592
Total non-current assets	4,106,774
Total assets	5,511,093
LIABILITIES	
Current liabilities:	
Accounts payable	268,340
Current portion of long-term debt	8,993
Due to General Fund	258,325
Total current liabilities	535,658
Current liabilities payable from restricted assets:	
Customer deposits	37,180
Notes payable	17,025
Total current liabilities payable from restricted assets	54,205
Non-current liabilities-notes payable	801,340
Total liabilities	1,391,203
NET ASSETS	
Invested in capital assets, net of related debt	3,161,234
Restricted for debt service	81,002
Unrestricted	877,654
Total net assets	\$ 4,119,890

TOWN OF ZWOLLE, LOUISIANA  
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 MAY 31, 2010

Operating revenues:	
Water charges	\$ 270,228
Sewer charges	213,858
Tap, connect and reconnect fees	<u>22,868</u>
Total operating revenues	<u>506,954</u>
Operating expenses:	
Water Department:	
Personnel	68,488
Supplies	20,766
Repairs and maintenance	1,882
Utilities	28,654
Insurance	13,806
Depreciation	50,053
Other expenses	<u>19,462</u>
Total water department expenses	<u>203,111</u>
Sewer Department:	
Personnel	22,921
Supplies	5,649
Repairs and maintenance	3,949
Utilities	13,268
Insurance	4,081
Depreciation	91,024
Other expenses	<u>16,874</u>
Total sewer department expenses	<u>157,766</u>
Total operating expenses	<u>360,877</u>
Operating income (loss)	<u>146,077</u>
Nonoperating revenues (expenses):	
Interest income	5,239
Grants	273,786
Interest expense	<u>(29,215)</u>
	<u>249,810</u>
Income before transfers	395,887
Transfer from General Fund	<u>60,000</u>
Change in net assets	455,887
Net assets, beginning of year	<u>3,664,003</u>
Net assets, end of year	<u>\$ 4,119,890</u>

TOWN OF ZWOLLE, LOUISIANA  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE  
YEAR ENDED MAY 31, 2010

Cash flows from operating activities:	
Cash received from customers	\$ 500,544
Cash payments to suppliers	(143,188)
Cash payments to employees	(81,731)
Cash received from customers' deposits	10,800
Cash refunded for customers' deposits	(9,177)
Net cash provided by operating activities	<u>277,248</u>
Cash flows from noncapital activities:	
Transfers from general fund	60,000
Decrease in due to general fund	113,112
Net cash provided (used) by noncapital activities	<u>173,112</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(27,026)
Grants received	3,575
Interest paid	(29,215)
Payments for capital acquisitions	(37,585)
Net cash provided (used) by capital and related financing activities	<u>(90,251)</u>
Cash flows from investing activities:	
Receipt of interest	5,239
Net cash provided by investing activities	<u>5,239</u>
Net increase (decrease) in cash and cash equivalents	365,348
Cash, cash equivalents and investments, beginning of year	840,119
Cash, cash equivalents and investments, end of year	<u>\$ 1,205,467</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	<u>\$ 146,077</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	141,077
Provision for doubtful accounts receivable	1,253
(Increase) decrease in accounts receivable	(6,410)
Increase (decrease) in accounts payable and accrued wages payable	(6,372)
Increase in customers' deposits	1,623
Total adjustments to operating income (loss)	<u>131,171</u>
Net cash provided by operating activities	<u>\$ 277,248</u>

**TOWN OF ZWOLLE, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2010**

(1) Summary of Significant Accounting Policies

The Town of Zwolle (Town) was incorporated September 13, 1889, under the provisions of a home rule charter. The Town operates under a Mayor-Board of Aldermen form of government.

The accounting and reporting policies of the Town conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Governmental Audit Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The following is a summary of the Commission's significant policies:

The more significant of the government's accounting policies are described below.

Financial Reporting Entity

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the financial statements of the Town consists of only the funds and account groups since the Town has no oversight responsibility for any other governmental entity.

Government-wide and fund financial statements

The government-wide financial statements (GWFS) (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two 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 Town is improving or deteriorating.

**TOWN OF ZWOLLE, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2010**

The statement of activities demonstrates the degree to which the direct expenses, of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Depreciation expense is identified by function and is included in the direct expense of each function. Interest on general long-term debt of governmental activities is considered an indirect expense and is reported separately on the statement of activities. Interest on long-term debt of business-type activities is recorded as direct expenses. Program revenues include 1) fees, fines, and charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements (FFS) are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the FFS. The Town had no non-major funds.

**Measurement Focus, Basis of Accounting, and Financial Statement Representation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Ad valorem taxes are recognized as revenues in the year in which final approval is received from the Louisiana Tax Commission, at which time a valid claim exists, to the extent considered available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensation absences are recorded only when payment is due.

Ad valorem taxes are considered "measurable" at the time of levy. Substantially all other non-intergovernmental revenues are susceptible to accrual and are recognized when earned or the underlying transaction occurs. Those revenues susceptible to accrual are ad valorem taxes, franchise taxes, sales taxes, interest revenue, licenses, intergovernmental revenues, and charges for services. Fines, permits, penalties and interest, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Anticipated refunds of taxes are recorded as liabilities and deductions of revenue when they are measurable and their validity seems certain. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met. In reimbursement type programs, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore revenues are recognized based upon the expenditures recorded. In other programs in which monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements, the resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met and all other eligibility requirements are met.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues expenditures/expenses and

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other changes in fund balance/net assets. The various funds are summarized by type in the financial statements. The following funds are used by the Town:

**Governmental Funds –**

**General Fund**

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

**Proprietary Fund –**

**Enterprise Fund**

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Town applies all applicable GASB pronouncements in accounting and reporting for its government-wide and business-type activities and its enterprise funds as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**Capital assets**

Capital assets which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated historical cost based upon like items. The Town, a phase 3 government, in accordance with GASB 34, has not retroactively reported infrastructure assets. As of June 1, 2004 the Town implemented a policy of capitalizing all infrastructure assets with a cost of

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\$10,000 or more. All other assets are capitalized based on thresholds of \$1,500 to \$10,000, depending on asset classification, except land and construction in progress which are capitalized at cost.

Capital assets are not reported in the governmental fund financial statements.

The cost of normal maintenance and repairs that do not extend the assets lives or add value are not capitalized.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water and sewer system	10 – 50 years
Water wells and pumps	20 years
Water filter systems	10 – 25 years
Water meters and hydrants	25 years
Trucks	5 years
Equipment	5 – 25 years

**Long-term obligations**

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Budgets and Budgetary Accounting**

The Town follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Town Treasurer prepares a proposed budget and submits same to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year.
2. A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal

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year for which the budget is being adopted.

5. Budgetary amendments involving the transfer of funds from one department, program or function to another or involving increases in expenditures resulting from revenues exceeding estimated amounts require the approval of the Board of Aldermen.

6. All budgetary appropriations lapse at the end of each fiscal year.

7. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended from time to time by the Board of Aldermen.

8. A budget is adopted for the Proprietary Fund on an accrual basis.

Cash and cash equivalents

Consistent with GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the Town defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents – includes short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

Bad debts

Uncollectible amounts due for ad valorem taxes and customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. At May 31, 2010, the reserve for uncollectible amounts amounted to \$11,541.

Compensated absences

Employees of the Town are entitled to paid vacation depending on job classification, length of service, and other factors. Employees' vacation earned does not accumulate or vest. Therefore, no liability for compensated absences has been recorded in the accompanying financial statements. The Town's policy is to recognize the costs of compensated absences when actually paid to employees.

Investments

State law and the municipality's investment policy allow the Town to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool and mutual funds consisting solely of government backed securities.

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Investments for the Town are reported at fair value. The state investment pool (LAMP) operates in accordance with state laws and regulations.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond May 31, 2010, are recorded as prepaid items.

**Estimates**

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

(2) **Ad Valorem Taxes**

Ad Valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Town in October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year and penalties are assessed. All ad valorem tax revenues are recognized in compliance with NCGA Interpretation - 3 and GASB Codification Section P70 (Revenue Recognition - Property Taxes) which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period.

The Town bills and collects its own property taxes using the assessed values determined by the tax assessor of Sabine Parish.

For the year ended May 31, 2010, taxes of 7.99 mills were levied on property with assessed valuations totaling \$7,166,370. Total taxes levied were \$57,261 for general corporate purposes.

(3) **Interfund Receivables and Payables**

Individual interfund receivables and payable balances at May 31, 2010, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 258,325	\$ -
Proprietary Fund	<u>-</u>	<u>258,325</u>
Total	<u>\$ 258,325</u>	<u>\$ 258,325</u>

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(4) Due from Other Governmental Units

Amounts due from other governmental units at May 31, 2010, consisted of the following:

General Fund

Due from Sabine Housing Authority	\$ 10,554
Due from State of Louisiana	3,912
Due from Sabine Sales Tax Commission	<u>47,977</u>
	<u>\$ 62,443</u>

(5) Restricted Assets - Proprietary Fund Type

Restricted assets were applicable to the following at May 31, 2010:

Customers' deposits	\$ 37,180
Revenue bonds:	
Sinking fund	3,912
Reserve fund	37,540
Depreciation & contingency fund	<u>39,550</u>
Total restricted assets	<u>\$ 118,182</u>

(6) Changes in Fixed Assets

A summary of changes in general fixed assets for 2010 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 151,991			\$ 151,991
Buildings	839,916			839,916
Equipment	121,315			121,315
Vehicles	116,351			116,351
Streets	<u>409,756</u>	<u>\$ 55,042</u>		<u>464,798</u>
<u>Total</u>	<u>\$ 1,639,329</u>	<u>\$ 55,042</u>	<u>\$ -</u>	<u>\$ 1,694,371</u>

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A summary of changes in accumulated depreciation for 2010 follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>
Buildings	\$ 200,023	\$ 25,368		\$ 225,391
Equipment	81,727	8,280		90,007
Vehicles	83,889	8,115		92,004
Streets	84,170	23,240		107,410
<u>Total</u>	<u>\$ 449,809</u>	<u>\$ 65,003</u>	<u>\$ -</u>	<u>\$ 514,812</u>

A summary of changes in proprietary fund type property, plant and equipment for 2010 follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>
Building	\$ 5,940			\$ 5,940
Land	7,160			7,160
Water System	1,769,339			1,769,339
Sewer System	3,659,531	\$ 30,308		3,689,839
Trucks	20,552			20,552
Equipment	59,598			59,598
Construction in Progress	28,869	271,809		300,678
<u>Total</u>	<u>\$ 5,550,989</u>	<u>\$ 302,117</u>	<u>\$ -</u>	<u>\$ 5,853,105</u>

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A summary of changes in accumulated depreciation for 2010 follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>
Building	\$ 3,234	\$ 198		\$ 3,432
Water System	769,194	37,398		806,592
Sewer System	902,565	91,024		993,589
Trucks	15,969	2,200		18,169
Equipment	32,475	10,257		42,732
Construction in Progress	-			-
<u>Total</u>	<u>\$ 1,723,437</u>	<u>\$ 141,077</u>	<u>\$ -</u>	<u>\$ 1,864,514</u>

**(7) Pension Plans**

Substantially all employees of the Town are members of the following statewide retirement's systems. These systems are cost sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:

**Municipal Police Employees' Retirement System**

**Plan Description.** The Municipal Police Employees' Retirement System provides retirement benefits to employees of any municipality in the state which employs a full-time police officer, empowered to make arrests, or which has an elected Chief of Police whose salary is at least \$100 per month.

Eligible employees include any full-time police officer, empowered to make arrests, employed by a municipality of the State and engaged in law enforcement, earning at least \$375 per month excluding state supplemental pay, or an elected Chief of Police whose salary is at least \$100 per month. Elected Councilmen and Mayors are excluded from membership.

Persons who were members on September 7, 1977 must remain members of the System and persons hired on or after that date must become members of the System as a condition of employment if they are under age 50 and are not covered by the Social Security System.

Employees attaining the age of 50 completing 20 or more years of service, or the age of 55 and completing 12 years of service, are entitled to a yearly benefit of 3 1/3% of their average final compensation, as defined in the plan, times years of creditable service. Active employees who become disabled after 1985 due to total and permanent disability, with at least 5 years of creditable service, receive a benefit of 3% of average final compensation multiplied by the years of creditable service, but not less than 40% nor more than 60% of average final compensation. Upon reaching retirement age, disability pensioners receive the greater of disability benefits or accrued benefits earned to the date of disability. Prior to the enactment of Act 81 of 1985, other disability rules may be applicable as described in the plan. The system also provides for death benefits as described in the plan.

The System issues an annual publicly available financial report that includes financial statements and

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required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling 225-929-7411.

Funding Policy. Covered employees are required by state statute to contribute 7.5% of their salary to the System. The Town is required to contribute 11% of covered employees' salaries to the System. The contribution requirement for the Town for the year ended May 31, 2010, 2009, and 2008 were \$5,428, \$6,885, and \$9,347, respectively. The contribution requirements of plan members and the Town are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

Municipal Employees' Retirement System

Plan Description. Other full time employees participate in the Municipal Employees' Retirement System of Louisiana (the System), Plan B, a multiple-employer public employee retirement system. Employees who retire at or after age 65 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary for each year of credited service. Final-average salary is the employee's average salary over the last three years of credited service. Employees may retire at or after age 60 and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by State statute.

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

Funding Policy. Under Plan B participating employees contribute 5% of their total salary into the System, and the Town contributes an amount equal to 6.75%, of the total salaries of participating employees. For the year ended May 31, 2010, 2009, and 2008, the total contributions by the Town to this System were \$4,275, \$4,167, and \$4.167, respectively.

The contribution requirements of plan members and the Town are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

(8) Lease Obligations

The Town is obligated under a certain lease accounted for as an operating lease. This lease is for the use of land comprising 2.98 acres for the operation and drilling of water wells. The term of the lease is forty years with an annual rental of \$1,500 payable monthly at \$125 per month. Operating leases do not give rise to property rights or lease obligations, and therefore the result of the lease agreement is not reflected in the Town's account groups. The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of May 31, 2010:

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Year ending	Amount
<u>May 31, 2010</u>	
2011	\$ 1,500
2012	1,500
2013	1,500
2014	1,500
2015	1,500
Later years	<u>22,625</u>
Total minimum payments required	<u>\$ 30,125</u>

(9) Cash and Investments

Louisiana revised Statutes authorize the Town to invest in United States bonds, treasury notes or certificates, or to deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

As described in Note 1, cash equivalents include all short term highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the date of purchase, have a maturity date no longer than three months qualify under this definition.

At May 31, 2010, the Town has cash and investments as follows:

	Unrestricted	Restricted	Total
Cash	\$ 1,580,562	\$ 118,182	\$ 1,698,744
Investments	<u>348,400</u>	<u>          </u>	<u>348,400</u>
Total	<u>\$ 1,928,962</u>	<u>\$ 118,182</u>	<u>\$ 2,047,144</u>

Of the total of \$2,046,744 deposited in demand and time deposits as of May 31, 2010, \$301,733 was secured through federal depository insurance, \$1,424,114 was secured by the pledge of securities owned by the depository bank, and \$320,897 was on deposit with the Louisiana Asset Management Pool (LAMP). These securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to both parties. These secured bank deposits are considered uncollateralized under the provisions of GASB Statement 3; however, Louisiana Revised Statutes require the custodial bank to advertise and sell the pledged securities within ten (10) days of being notified by the Town that the pledging bank has failed to pay deposited funds upon demand.

LAMP is a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds

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in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33:2955. LAMP is rated AAAM by Standard & Poor's. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

(10) Long-term Debt

On October 29, 1991, the Town entered into an agreement with Farmers Home Administration (FmHA) to allow the Town to undertake a water system improvement project at an estimated cost of \$975,000. Funding for the project was provided by FmHA by means of issuance of \$780,000 of revenue bonds (Bonds) and by a \$195,000 grant. On April 20, 1992, the Town executed a "Project Advance Agreement" with the Louisiana Public Facilities Authority (LPFA) to provide interim financing for the water system improvement project based on the commitment for permanent financing from FmHA. On September 25, 1993 the Bonds were issued and the interim financing with LPFA was repaid. The Bonds bear interest at the rate of five percent (5%) from the date of issuance. Principal and interest on the Bonds are payable over a forty (40) year period, with the first payment consisting of interest only (\$39,000) which was due on the first anniversary of the issuance date (September 25, 1993). Commencing one month after the first anniversary date, and monthly thereafter, payments of principal and interest will be \$3,799 monthly.

The following is a schedule by years of future payments under the above Bonds:

<u>Year ending</u> <u>May 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 17,025	\$ 28,558	\$ 45,583
2012	17,896	27,687	45,583
2013	18,810	26,773	45,583
2014	19,772	25,811	45,583
2015	20,784	24,799	45,583
Later years	<u>484,640</u>	<u>206,708</u>	<u>691,348</u>
Total	<u>\$ 578,927</u>	<u>\$ 340,336</u>	<u>\$ 919,263</u>

Under the terms of the bond agreement with FmHA, all income and revenues earned or derived from operations of the utility fund are pledged and dedicated to the retirement of the Bonds, and are to be used for the following expressed purposes:

- (a) Payment of all reasonable expenses of operation and maintenance of the system.
- (b) Each month there will be set aside into a fund called the "Water Revenue Bond and Interest Sinking Fund" (the "Sinking Fund"), a sum equal to one-twelfth (1/12th) the interest falling due on the next interest payment date during the first year the Bonds are outstanding and, thereafter, a sum equal to the total amount of principal and interest falling due on the next principal and interest payment date together with such additional proportionate sum as may be required to pay said

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principal and interest as the same respectively become due. Monthly deposits of \$3,250 are required through September 25, 1993, and \$3,799 monthly thereafter. The balance required at May 31, 2010 is \$3,799. The present balance is \$3,912.

(c) There will be set aside monthly into a "Water Revenue Bond Reserve Fund" (the "Reserve Fund"), commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, a sum at least equal to five percent (5%) of the amount to be paid into the Sinking Fund provided for in paragraph (b) above, the payments into the Reserve Fund to continue until such time as there has been accumulated in the Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the Bonds as a Debt Service Reserve, the money in the Reserve Fund to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. Monthly deposits of \$163 are required through September 25, 1993 and \$190 monthly thereafter until the balance reaches \$45,583. The balance required at May 31, 2010 is \$39,632. The present balance is \$37,540.

(d) There will be set aside monthly into a "Water Depreciation and Contingency Fund" (the "Contingency Fund") to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, commencing with the month following completion of and acceptance of the improvements and extensions financed with the proceeds of the Bonds, the sum of \$193 per month. The balance required at May 31, 2010 is \$41,116. The present balance is \$39,550.

A portion of retained earnings is reserved to cover these restricted assets for future debt service on the revenue bonds. At May 31, 2010 the reserve funds listed in (b) through (d) above were underfunded by \$3,545, which amount was deposited in November 2010.

On November 1, 1999 the town entered into a Utility Relocation Assistance Funding Agreement with the Louisiana Department of Transportation & Development (DOTD) whereby DOTD agreed to loan the town up to \$136,361 in connection with utility relocation costs on Highway 171. The town has recorded a non-interest bearing note payable to DOTD in the amount of \$74,460 in connection with this project. Although there is no formal repayment schedule for this loan, in June 2010 the town began repaying this loan at the rate of \$7,446 annually.

On October 13, 2005 the town entered into a Utility Relocation Assistance Funding Agreement with the DOTD whereby DOTD agreed to loan the town up to \$292,912 in connection with additional utility relocation costs on Highway 171. The town has recorded a non-interest bearing note payable to DOTD in the amount of \$172,424 in connection with this project. The town has not yet determined a repayment schedule for this loan.

On February 22, 2007 the Town entered into a \$28,000 loan with Sabine State Bank, at 7.75% interest, to finance an excavator. The loan is repayable over 42 months at \$780 per month. The following is a schedule by years of future payments under the above loan:

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Year ending <u>May 31</u>	Principal	Interest	Total
2011	\$ 1,547	\$ 13	\$ 1,560
Total	<u>\$ 1,547</u>	<u>\$ 13</u>	<u>\$ 1,560</u>

On July 13, 2008, the Town entered into a \$40,576 loan with Ford Motor Credit Corporation at 6.5% interest to purchase two police cars. The loan is repayable over thirty-six (36) months at \$1,237 per month.

The following is a schedule by years of future payments under the above loan:

Year ending <u>May 31</u>	Principal	Interest	Total
2011	\$ 14,180	\$ 664	\$ 14,844
2012	<u>2,453</u>	<u>21</u>	<u>2,474</u>
Total	<u>\$ 16,633</u>	<u>\$ 685</u>	<u>\$ 17,318</u>

The following is a summary schedule by years of future payments under the above debt:

Year ending <u>May 31</u>	Principal	Interest	Total
2011	\$ 40,198	\$ 29,235	\$ 69,433
2012	27,795	27,708	55,503
2013	26,256	26,773	53,029
2014	27,218	25,811	53,029
2015	28,230	24,799	53,029
Later years	<u>694,294</u>	<u>206,708</u>	<u>901,002</u>
Total	<u>\$ 843,991</u>	<u>\$ 341,034</u>	<u>\$ 1,185,025</u>

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(11) Sales and Use Tax

On April 16, 1988, the voters of the Town approved a 1% sales and use tax upon the sale at retail, the use, the lease or rental, the consumption or storage for use or consumption of tangible personal property and on sales of services in the Town. The 1% sales and use tax is dedicated to the General Fund to be used for any lawful corporate purpose as deemed necessary by the Board of Aldermen. In addition, effective October 1, 2005 the voters of the Town approved an additional 1% sales and use tax.

(12) Contingencies

Grant Audits

The Town receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed, if any, under the terms and conditions of the appropriate agency.

(13) Pending Litigation

The Town is a party to legal proceedings involving suits filed against the Town for various reasons; however Town management does not believe the Town is exposed to any material losses in these proceedings. Accordingly, no provision for losses is included in the financial statements.

(14) Note Payable

A \$200,000, one year, line of credit was established on May 9, 2002 with a local bank to support a \$100,000 recreational grant, with a corresponding \$100,000 Town matching requirement. As of May 31, 2010, the line of credit had a balance of \$39,538, and has a maturity date of December 5, 2010.

(15) Compensation paid to Mayor and Aldermen

In accordance with the requirements of the Office of the Legislative Auditor, State of Louisiana, the following reflects compensation paid the Mayor and members of the Town Council for the year ended May 31, 2010:

Mayor Roger Lopez	\$ 17,040
Council members:	
Allen Rivers	4,800
Martha Henderson	4,800
Carolyn C. Price	4,800
Donald E. Remedies	4,800
Rich Remedies	4,800

(16) Commitments

The Town has committed approximately \$144,000 of the Town's funds to obtain grant funds for street and water improvements amounting to \$973,652. A street construction contract in the amount of \$407,889 was awarded May 25, 2010. The water improvement project is expected to begin sometime during the year

**TOWN OF ZWOLLE, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2010**

ending May 31, 2010. In addition, on January 14, 2010 the Town awarded a construction contract in the amount of \$569,385 for sewer improvements; this project was underway at May 31, 2010. The sewer improvement project is funded with a Louisiana capital outlay grant.

(17) Risk Management

The Town is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance to cover or reduce the risk of loss that might arise should one of these incidents occur. No settlements were made during the current or prior three fiscal years that exceeded the Town's insurance coverage. The Town's management has not purchased commercial insurance or made provision to cover or reduce the risk of loss as a result of business interruption and certain acts of God.

TOWN OF ZWOLLE, LOUISIANA  
 STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET AND ACTUAL ON A BUDGETARY BASIS  
 GENERAL FUND  
 YEAR ENDED MAY 31, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 666,000	\$ 641,000	\$ 606,830	\$ (34,170)
Licenses and permits	83,200	95,500	94,473	(1,027)
Intergovernmental	727,100	17,100	58,353	41,253
Charges for services	70,000	70,000	70,724	724
Fines and forfeits	65,000	65,000	97,518	32,518
Miscellaneous	31,000	31,000	56,640	25,640
Total revenues	<u>1,642,300</u>	<u>919,600</u>	<u>984,538</u>	<u>64,938</u>
Expenditures:				
Current:				
General government	379,424	159,424	163,602	(4,178)
Public safety	265,820	265,820	328,869	(63,049)
Debt service	-	15,000	14,388	612
Highways and streets	826,760	300,420	234,474	65,946
Health and sanitation	62,500	62,500	61,707	793
Recreation	24,500	23,000	25,553	(2,553)
Total expenditures	<u>1,559,004</u>	<u>826,164</u>	<u>828,593</u>	<u>(2,429)</u>
Excess of revenues over expenditures before transfers	83,296	93,436	155,945	62,509
Proceeds from financing				-
Transfer to Utility Fund	(60,000)	(60,000)	(60,000)	-
	<u>(60,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>
Excess of revenues over expenditures	23,296	33,436	95,945	62,509
Fund balances, beginning of year	<u>983,655</u>	<u>983,655</u>	<u>983,655</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,006,951</u>	<u>\$ 1,017,091</u>	<u>\$ 1,079,600</u>	<u>\$ 62,509</u>

**Eugene W. Fremaux II**

Certified Public Accountant

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Many, Louisiana 71449

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

The Honorable Roger Lopez, Mayor  
and Board of Aldermen  
Town of Zwolle, Louisiana

I have audited the basic financial statements of the Town of Zwolle, Louisiana (the Town), as of May 31, 2010 for the year then ended, and have issued my report thereon dated November 30, 2010. I conducted my audit in accordance with auditing standards generally accepted in the *United States of American* 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 my audit, I considered the Town's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses, and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of *findings and responses* to be material weaknesses (2010-04 and 2010-05).

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of *findings and responses* to be significant deficiencies (2010-01).



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses (2010-02).

The Town of Zwolle, Louisiana's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Town of Zwolle, Louisiana's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the Mayor, management, Town Council, Louisiana Legislative Auditor, and 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.



EUGENE W. FREMAUX II, CPA  
November 30, 2010

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**CURRENT YEAR**

**2010-01 Payroll**

During our tests of payroll records and procedures, we noted several errors in payroll records and weaknesses in internal control procedures over payroll processing. The errors related to calculation of hours paid, calculation of overtime, and use of incorrect overtime rates. In addition, there was an error made on the calculation of gross wages on one employee's 2009 Form W-2. Weaknesses in internal controls over payroll processing relate primarily to concentration of payroll processing duties in one employee and lack of a clerical check on manual computations and input by the Town clerk.

**Recommendation**

The Town should prepare a list of all employee documents that should be included in the employee's personnel file and then review all employee's personnel files to be sure they include all needed documents. If feasible, the Town should implement the interface between the Time Guardian time clock and the accounting system to reduce the possibility of clerical errors resulting from manual calculation of time worked. Each employee's payroll setup in the payroll system should be reviewed to be sure that the employee is correctly coded for Form W-2 purposes. In addition, overtime worked should be formally approved by the employee's supervisor.

Since the small number of employees in the Town's office makes segregation of duties difficult, the supporting documents for each payroll should be reviewed carefully by the check signers as an additional internal control.

**Management's response**

Management will implement the above recommendation. Formal written procedures will be developed to document payroll preparation and related internal controls. The Town's auditor will be asked to provide guidance and assistance in developing and implementing these procedures and controls.

**2010-02 Payroll Tax Reporting and Payments**

During the first three quarters of 2010, required IRS quarterly reports were not prepared or filed; and not all payroll deposits were made on a timely basis or for the correct amounts. Non-compliance of IRS payroll tax reporting and deposits requirements expose the Town to potential penalties and interest. The Town was not in arrears on payroll tax deposits as of May 31, 2010.

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**Recommendation**

The Town clerk should become knowledgeable of these reporting and deposit requirements and make sure that the Town is in compliance. Deposits should be made for each payroll and proof of such deposit should accompany each batch of payroll checks presented to management for their signature.

**Management's response**

Management will implement the above recommendation. Form 941's for the first three quarters have been prepared and filed. The clerk has become knowledgeable of the reporting and deposit requirements for payroll taxes.

**2010-03 Accounting Policies and Procedures**

The Town does not have written accounting policies or procedures for employees to use as a guide. The lack of written policies and procedures was highlighted in January 2010 when there was turnover in the Town clerk's position and the new clerk missed filing some reports (such as retirement reports) and payments on a timely basis. Potential problems relating to staff turnover can be greatly reduced if there are adequate written accounting policies and procedures, which are reviewed and updated on an annual basis.

**Recommendation**

The Town should develop and implement written accounting policies and procedures for the office staff to follow; and adopt procedures to keep these procedures up-to-date. As a minimum the policies and procedures should relate to:

- Filing and retention of records
- Financial reporting
- Receipts and collections
- Customer utility accounts
- Payroll and personnel
- Capital assets
- Computer use and backup
- Credit card use
- Travel
- Purchasing
- Cash disbursements
- Month end closing procedures

**Management's response**

Management understands the importance of written policies and procedures and will implement the above recommendation. Management's goal is to complete this project by March 31, 2011.

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**2010-04 Bank reconciliations**

Bank account reconciliations were not performed timely during 2010. Reconciliations for 2010 were not performed until November 2010. As a result of these untimely reconciliations, interim financial statements prepared for management were not considered reliable, due primarily to certain deposits not being timely entered into the general ledger resulting in cash and revenues being understated and utility receivables being overstated. The finding is a repeat of prior year finding 2009-01.

**Recommendation**

Timely bank reconciliations are essential to catch errors in general ledger postings of cash transactions and also provide a critical element of internal control over cash transactions. In connection with the monthly council meetings, the Treasurer should review and approve all bank reconciliations to be sure that the Town clerk is performing timely reconciliations.

**Management's response**

The bank reconciliations for 2010 were completed in late November 2010, along with the reconciliations through October 31, 2010. Management is aware of their responsibility to insure that these reconciliations are completed prior to each monthly Council meeting. The Council will monitor bank reconciliation preparation on a monthly basis.

**2010-05 Accounts receivable reconciliation**

Presently the utility billing system is not reconciled on a monthly basis with the related accounts receivable account in the general ledger. The finding is a repeat of prior year finding 2009-02.

**Recommendation**

Internal control over accounts receivable and utility billings would be improved if the utility billing system was reconciled with the related general ledger account on a monthly basis. In addition, clerical errors would be identified on a timely basis.

**Management's response**

Now that bank reconciliations are being prepared on a timely basis, this recommendation will be adopted effective December 31, 2010. The Town's auditor will be requested to assist the town clerk in setting up the procedures for this reconciliation.

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**2010-06 Traffic tickets**

Presently there is no record of the ticket books issued to police officers as ticket books are not issued to individual officers, therefore there is no way to determine who had possession of a given ticket book should a ticket from that book become lost. In addition, only unpaid traffic violations are reported to the Louisiana Department of Public Safety (DPS), whereas the law requires reporting of all (paid and unpaid) traffic violations, except parking violations. This is a repeat of prior year finding 2009-03.

**Recommendation**

The police department should maintain a log of ticket books issued, including the officer's name, date of issue, ticket numbers, and the police officer's signature of receipt. In addition, all appropriate traffic tickets should be reported to DPS as required by law R.S. 32:393C(1)(b).

**Management's response**

This recommendation has not yet been adopted, due to a mistaken belief that small towns were exempt from the DPS reporting requirement. Mayor's Court will begin reporting applicable traffic tickets in January 2011 (there is no court scheduled for December 2010). In addition, effective immediately, ticket books will be issued to individual officers.

**PRIOR YEAR**

**2009-01 Bank reconciliations**

Bank account reconciliations were not performed timely during 2009. Reconciliations for the last few months of 2009 were not performed until November 2009. As a result of these untimely reconciliations, cash in the general ledger was understated by approximately \$17,000 of deposits, along with a corresponding overstatement of accounts receivable.

**Recommendation**

Timely bank reconciliations are essential to catch errors in general ledger postings of cash transactions and also provide a critical element of internal control over cash transactions. In connection with the monthly council meetings, the Treasurer should review and approve all bank reconciliations to be sure that the Town clerk is performing timely reconciliations.

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**Disposition**

The bank reconciliations for 2009 were not performed until late November 2009. Management is aware of their responsibility to insure that these reconciliations are completed prior to each monthly Council meeting. The Council will monitor bank reconciliation preparation on a monthly basis.

**2009-02 Accounts receivable reconciliation**

Presently the utility billing system is not reconciled on a monthly basis with the related accounts receivable account in the general ledger.

**Recommendation**

Internal control over accounts receivable and utility billings would be improved if the utility billing system was reconciled with the related general ledger account on a monthly basis. In addition, clerical errors would be identified on a timely basis.

**Disposition**

This recommendation has not yet been adopted, primarily due to lack of timely bank reconciliations as noted in 2009-01.

**2009-03 Traffic tickets**

Presently there is no record of the ticket books issued to police officers as ticket books are not issued to individual officers, therefore there is no way to determine who had possession of a given ticket book should a ticket from that book become lost. In addition, only unpaid traffic violations are reported to the Louisiana Department of Public Safety (DPS), whereas the law requires reporting of all (paid and unpaid) traffic violations, except parking violations.

**Recommendation**

The police department should maintain a log of ticket books issued, including the officer's name, date of issue, ticket numbers, and the police officer's signature of receipt. Traffic tickets should be reported to DPS as required by law.

**Disposition**

This recommendation has not yet been adopted, due to a mistaken belief that small towns were exempt from the DPS reporting requirement.

TOWN OF ZWOLLE, LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED MAY 31, 2010

**2009-04 Form 1099 reporting**

The Town is not issuing Form 1099 in all situations required by IRS regulations.

**Recommendation**

The Town should review all the vendors in the accounting system and code all those that are potential Form 1099 recipients so that the Town can comply with IRS requirements.

**Disposition**

Management has implemented the above recommendation.

**2009-05 Employment Issue**

In connection with the Town providing emergency shelter to Hurricane Ike evacuees, the Town paid a Council member's son and daughter-in-law a total of \$256 to work in the Town's shelter from 6 p.m. on September 1, 2008 to 9 a.m. on September 2, 2008 assisting the evacuees and protecting the Town's property. LSA-RS 42:1119 provides that no member of the immediate family of any member of the governing authority may be employed by the governmental entity; therefore the payment was in violation of this law.

**Recommendation**

The Town Council should follow state law concerning employment of family members, even in emergency situations, and contact the Louisiana Board of Ethics should there be any question about a given situation, before taking any action.

In addition, since FEMA reimbursed the Town for these expenses, the Town needs to determine if FEMA should be repaid for this expense.

**Disposition**

No situations of this nature were noted in 2010. Management is aware of the nepotism prohibitions in Section 1119 of LSA-R.S. 42:1119.