

TOWN OF WATERPROOF, LOUISIANA
ANNUAL FINANCIAL STATEMENTS
AS OF JUNE 30, 2009
AND FOR THE YEAR ENDED
WITH
INDEPENDENT AUDITOR'S REPORT

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 3/2/11



SILAS SIMMONS LLP
CERTIFIED PUBLIC ACCOUNTANTS *and* ADVISORS

TOWN OF WATERPROOF, LOUISIANA

Annual Financial Statements
As of and for the Year Ended June 30, 2009
With Supplemental Information Schedules

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INDEPENDENT AUDITOR'S REPORT

The Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waterproof, Louisiana as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The Town's Mayor, during the fiscal year ended June 30, 2009, was convicted in May 2010 for malfeasance in office and felony theft, and the Police Chief has been indicted on similar charges. Many of the Town's financial records were lost or unavailable. The Town did not provide adequate records to substantiate certain deposits or disbursements affecting assets, liabilities, income, and expense accounts. We found insufficient documentation to support transactions, classifications, and disclosures in the financial statements.

As a result of the insufficient documentation described above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

Management has not presented the statement of cash flows for the Proprietary Utility Fund. Accounting principles generally accepted in the United States of America require the presentation of the statement of cash flows for the Proprietary Utility Fund.

Management has not presented Management's Discussion and Analysis and the Budgetary Comparison Schedule that is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011, on our consideration of the Town of Waterproof, Louisiana's internal control over financial reporting and 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 considered in assessing the results of our audit.

Silas Simmons, LLP

Natchez, Mississippi
January 19, 2011

SECTION I
GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 8,396	\$ 1,809	\$ 10,205
Receivables (net of allowance for uncollectible amounts)	53,549	170,000	223,549
Inventory	-	3,255	3,255
Other assets	-	626	626
Restricted assets	-	1,431	1,431
Capital assets (net)	<u>326,054</u>	<u>2,169,580</u>	<u>2,495,634</u>
Total assets	<u>\$ 387,999</u>	<u>\$ 2,346,701</u>	<u>\$ 2,734,700</u>
<u>LIABILITIES</u>			
Accounts, salaries, and other payables	\$ 32,141	\$ 49,274	\$ 81,415
Customer deposits	-	33,350	33,330
Long-term liabilities:			
Due within one year	24,403	10,750	35,153
Due in more than one year	<u>17,153</u>	<u>466,962</u>	<u>484,115</u>
Total liabilities	<u>\$ 73,697</u>	<u>\$ 560,316</u>	<u>\$ 634,013</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 290,174	\$ 1,691,868	\$ 1,982,042
Restricted for:			
Customer deposits	-	276	276
Debt service	-	430	430
Grant expenditures	-	725	725
Unrestricted	<u>24,128</u>	<u>93,086</u>	<u>117,214</u>
Total net assets	<u>\$ 314,302</u>	<u>\$ 1,786,385</u>	<u>\$ 2,100,687</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT B

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Activities	Program Revenues			Net (Expenses), Revenues, and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government and public safety	\$ 341,717	\$ 173,388	\$ -	\$ (168,329)	\$ -	\$ (168,329)
Interest on long-term debt	3,249	-	-	(3,249)	-	(3,249)
Total governmental activities	\$ 344,966	\$ 173,388	\$ -	\$ (171,578)	\$ -	\$ (171,578)
Business-type activities						
Utilities	\$ 529,870	\$ 561,108	\$ 78,394	\$ -	\$ 109,632	\$ 109,632
Total business-type activities	\$ 529,870	\$ 561,108	\$ 78,394	\$ -	\$ 109,632	\$ 109,632
Total	\$ 874,836	\$ 734,496	\$ 78,394	\$ (171,578)	\$ 109,632	\$ (61,946)
General Revenues:						
Taxes		\$ 18,828	\$ -	\$ -	\$ -	\$ 18,828
Interest income					1	1
Transfers				114,172	(114,172)	-
Total general revenues and transfers		\$ 133,000	\$ -	\$ 133,000	\$ (114,171)	\$ 18,829
Change in net assets				\$ (38,578)	\$ (4,539)	\$ (43,117)
Net assets, beginning of year				352,880	1,790,924	2,143,804
Net assets, end of year				\$ 314,302	\$ 1,786,385	\$ 2,100,687

The accompanying notes are an integral part of this financial statement.

SECTION II
FUND FINANCIAL STATEMENTS

TOWN OF WATERPROOF, LOUISIANA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 8,396
Receivables (net of allowance for uncollectible accounts)	<u>53,549</u>
Total assets	<u>\$ 61,945</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts, salaries, and other payables	<u>\$ 32,141</u>
Fund balance:	
Unreserved	<u>\$ 29,804</u>
Total liabilities and fund balance	<u>\$ 61,945</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Fund balances, total governmental funds (Statement C)	\$ 29,804
Amounts reported for governmental activities in the statement of net assets (Statement A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:	
Land	\$ 23,308
Building improvements, net of \$100,703 accumulated depreciation	239,487
Automobiles and equipment, net of \$278,346 accumulated depreciation	63,259
Total capital assets	\$ 326,054
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term liabilities at June 30, 2009	\$ (41,556)
Net assets of governmental activities (Statement A)	\$ 314,302

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>
<u>REVENUES</u>	
Taxes	\$ 18,828
Licenses and permits	(6,205)
Fines	126,825
Miscellaneous	52,768
Total revenues	<u>\$ 192,216</u>
<u>EXPENDITURES</u>	
Current	
General government and public safety	\$ 307,402
Debt service:	
Principal	14,338
Interest	3,249
Total expenditures	<u>\$ 324,989</u>
Excess of revenues under expenditures	<u>\$ (132,773)</u>
Other financing sources:	
Transfers in	<u>\$ 114,172</u>
Total other financing sources	<u>\$ 114,172</u>
Net changes in fund balances	\$ (18,601)
Fund balances, beginning of year	<u>48,405</u>
Fund balances, end of year	<u>\$ 29,804</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balance, total governmental funds, (Statement E)	\$ (18,601)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Thus, the change in net assets differs from the change in fund balance by the amount that depreciation \$34,315 exceeded capital outlays of \$0 in the current period.	(34,315)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balance by the amount that debt repayments of \$14,338 exceeds proceeds from the issuance of debt of \$0.	<u>14,338</u>
Change in net assets of governmental activities, (Statement B)	<u>\$ (38,578)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Utility Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash	\$ 1,809
Accounts receivable, utility sales (net of allowance for doubtful accounts of \$20,000)	170,000
Inventory	3,255
Other	626
Total current assets	<u>\$ 175,690</u>
Noncurrent assets - restricted assets:	
Bond debt service fund	\$ 82
Depreciation fund	348
Customer deposits	276
USDA garbage grant	725
Total noncurrent assets - restricted assets	<u>\$ 1,431</u>
Capital assets:	
Property, plant, and equipment	\$ 5,510,133
Less accumulated depreciation	<u>(3,340,553)</u>
Net capital assets	<u>\$ 2,169,580</u>
Total assets	<u>\$ 2,346,701</u>
<u>LIABILITIES</u>	
Current liabilities (payable from current assets):	
Accounts payable	\$ 49,274
Total current liabilities payable from current assets	<u>\$ 49,274</u>
Current liabilities (payable from restricted assets):	
Customer deposits	\$ 33,330
Current portion of long-term debt	10,750
Total current liabilities payable from restricted assets	<u>\$ 44,080</u>
Long-term liabilities	<u>\$ 466,962</u>
Total liabilities	<u>\$ 560,316</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 1,691,868
Restricted for customer deposits	276
Restricted for debt service	430
Restricted for grant expenditures	725
Unrestricted	<u>93,086</u>
Total net assets	<u>\$ 1,786,385</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Utility Fund</u>
Operating revenues:	
Charges for services	
Gas sales	\$ 51,979
Water sales	396,272
Sewer service sales	14,180
Garbage sales	4,755
Grants	78,394
Miscellaneous revenues	93,922
Total operating revenues	<u>\$ 639,502</u>
Operating expenses:	
Departmental expenses	<u>\$ 507,729</u>
Operating income	<u>\$ 131,773</u>
Nonoperating revenues (expenses)	
Interest earned	\$ 1
Interest expense	<u>(22,141)</u>
Total nonoperating revenues (expenses)	<u>\$ (22,140)</u>
Operating transfers	
Transfers (out)	<u>\$ (114,172)</u>
Total operating transfers	<u>\$ (114,172)</u>
Net changes in fund balances (deficit)	\$ (4,539)
Fund balances, beginning of year	<u>1,790,924</u>
Fund balances, end of year	<u>\$ 1,786,385</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

INTRODUCTION

The Town of Waterproof is a municipal corporation governed by an elected mayor.

1. The Town of Waterproof, Louisiana was incorporated under the provisions of the Lawrason Act as a Town in 1862.
2. The purpose of the municipality is to provide utility services, public safety (police and fire), streets, sanitation, and general administrative services.
3. The Board of Aldermen consists of five elected members that are each paid \$500 per month.
4. The Town of Waterproof is located in the southern portion of Tensas Parish, Louisiana. Tensas Parish is located in northeast Louisiana.
5. The population of the municipality is approximately 1,000 people.
6. The Town of Waterproof has approximately 15 full time employees.
7. The Town of Waterproof has approximately 400 utility customers.

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 municipality is considered a primary government, since 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 municipality may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes, set rates or charges, and issue bonded debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Government-Wide and Fund Financial Statements*

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

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. Program revenues include 1) 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 operational 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 financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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 imposed by the provider have been met.

Governmental 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The municipality reports the following major governmental fund:

The General Fund is the municipality's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The municipality reports the following major proprietary fund:

The Utility Enterprise Fund accounts for operations where the intent of the governing body is that 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. In the case of the Town of Waterproof, this includes the operation of the Town's gas, water, garbage, and sewer systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation* (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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, including special assessments. 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the proprietary funds are the sales of water, gas, garbage, and sewer services to both residential and commercial customers. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. *Deposits*

The municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the municipality's investment policy allow the municipality to invest in collateralized certificates of deposit, government-backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government-backed securities.

D. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. *Receivables and Payables* (continued)

All fines and utility charges receivables are shown net of an allowance for uncollectibles. The Town provides for uncollectibles based upon analysis of the receivables portfolio and historical collection statistics.

Property taxes are levied on a calendar year basis and become due on January 1 of each year. The following is a summary of authorized and levied ad valorem taxes:

	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
Taxes due for:			
General fund	22.69	22.69	1/1/2010

E. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. *Restricted Assets*

Certain assets of the business-type activities fund of the Town have been restricted for debt service grant expenditures and customers' deposits.

G. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), 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 cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There were no major projects capitalized during the current fiscal year.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Gas lines, sewer lines, and water plant	50 years
Vehicles and equipment	3-10 years

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. *Compensated Absences*

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

The Town grants one week vacation after one year of service and two weeks vacation after two years of service. Each employee is entitled to ten sick days per year. Vacation or sick pay does not accumulate. The Town's policy concerning compensation for unpaid vacation pay or sick pay is that upon termination of an employee, vacation days and sick days not previously used by the employee are not reimbursed.

I. *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 statement of net assets.

J. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. *Estimates*

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGET INFORMATION The municipality uses the following budget practices:

1. The Town prepares a proposed budget and submits it to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year. The Town approves a budget for the general fund only.
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.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

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 the passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
5. Budgetary amendments involving the transfer to funds from one department, program, or function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Board of Aldermen.
6. All budgetary appropriations lapse at the end of each fiscal year.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2009, the municipality has cash and cash equivalents (book balances) totaling \$11,636. These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of 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 in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 2009, the municipality has \$8,947 in deposits (collected bank balances). These deposits are secured from risk by \$500,000 of federal deposit insurance and \$115,000 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the municipality that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 4 - RECEIVABLES

The receivables for June 30, 2009, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Utility Fund</u>
Fines	\$ 53,549	\$ -
Utility fees	-	190,000
Less allowance for uncollectibles	-	(20,000)
Total	<u>\$ 53,549</u>	<u>\$ 170,000</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 5 - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2009, for the primary government, are as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 23,308	\$ -	\$ -	\$ 23,308
Capital assets being depreciated				
Buildings	\$ 340,190	\$ -	\$ -	\$ 340,190
Vehicles	135,553	-	-	135,553
Machinery and equipment	206,052	-	-	206,052
Total capital assets being depreciated	\$ 681,795	\$ -	\$ -	\$ 681,795
Less accumulated depreciation for:				
Buildings	\$ (91,995)	\$ (8,708)	\$ -	\$ (91,995)
Vehicles	(113,261)	(4,717)	-	(117,978)
Machinery and equipment	(139,478)	(20,890)	-	(160,368)
Total accumulated depreciation	\$ (344,734)	\$ (34,315)	\$ -	\$ (379,049)
Governmental activities capital assets, net	<u>\$ 360,369</u>	<u>\$ (34,315)</u>	<u>\$ -</u>	<u>\$ 326,054</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 5 - CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 38,860	\$ -	\$ -	\$ 38,860
Capital assets being depreciated				
Water system lines and equipment	\$ 3,005,787	\$ -	\$ -	\$ 3,005,787
Gas system lines and equipment	812,157	-	-	812,157
Sewer system lines and equipment	1,417,244	-	-	1,417,244
Garbage vehicles and equipment	232,523	-	-	232,523
Mowing equipment	3,562	-	-	3,562
Total capital assets being depreciated	<u>\$ 5,471,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,471,273</u>
Less accumulated depreciation for:				
Water system lines and equipment	\$ 1,694,233	\$ 68,049	\$ -	\$ 1,762,282
Gas system lines and equipment	683,220	29,283	-	712,503
Sewer system lines and equipment	656,153	28,303	-	684,456
Garbage vehicles and equipment	161,792	15,958	-	177,750
Mowing equipment	3,562	-	-	3,562
Total accumulated depreciation	<u>\$ 3,198,960</u>	<u>\$ 141,593</u>	<u>\$ -</u>	<u>\$ 3,340,553</u>
Business-type activities, capital assets, net	<u>\$ 2,311,173</u>	<u>\$ (141,593)</u>	<u>\$ -</u>	<u>\$ 2,169,580</u>

Depreciation expense of \$34,315 for the year ended June 30, 2009, was charged to the following governmental functions:

Police and fire	<u>\$ 34,315</u>
-----------------	------------------

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers consist of operating transfers between the general fund and the utility fund as follows:

<u>Transfers in</u>	<u>Transfers out</u>	
Governmental fund	Proprietary fund	<u>\$ 114,172</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 7 - LEASES

The municipality records items under capital leases as an asset and an obligation in the accompanying financial statements. The following is an analysis of capital leases:

<u>Type</u>	<u>Recorded Amount</u>
Vehicles	<u>\$ 15,019</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2009:

	<u>Vehicles</u>
Fiscal year:	
2010	\$ 10,695
2012	<u>1,337</u>
Total minimum lease payments	\$ 12,032
Less - amounts representing interest	<u>632</u>
Present value of net minimum lease payments	<u>\$ 11,400</u>

NOTE 8 - LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended June 30, 2009:

	<u>Bonded Debt</u>	<u>Grants and Notes Payable</u>	<u>Capital Leases</u>	<u>Total</u>
Long-term obligations at beginning of year	\$ 486,4782	\$ 39,221	\$ 16,673	\$ 542,676
Additions	-	-	-	-
Deductions	<u>(9,070)</u>	<u>(9,065)</u>	<u>(5,237)</u>	<u>(23,408)</u>
Long-term obligations at end of year	<u>\$ 477,712</u>	<u>\$ 30,156</u>	<u>\$ 11,400</u>	<u>\$ 519,268</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2009:

	<u>Bonded Debt</u>	<u>Grants and Notes Payable</u>	<u>Capital Leases</u>	<u>Total</u>
Current portion	\$ 10,750	\$ 14,329	\$ 10,074	\$ 35,153
Long-term portion	<u>466,962</u>	<u>15,827</u>	<u>1,326</u>	<u>484,115</u>
Long-term obligations at end of year	<u>\$ 477,712</u>	<u>\$ 30,156</u>	<u>\$ 11,400</u>	<u>\$ 519,268</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 - LONG-TERM OBLIGATIONS (continued)

Long-term debt at June 30, 2009, consists of the following:

Water Revenue Bonds - \$534,881 in revenue bonds due in annual installments of \$31,181 through July 2035, bearing interest at a rate of 4.5%.	\$ 477,712
Grant repayment to the Department of Justice for the 1999/2000 COPS grant due in monthly installments of \$1,189 through August 2008, bearing interest at a rate of 1%.	5,675
Note payable to finance company - \$38,724 due in monthly installments of \$777 through April 2012, bearing interest at 7.5%.	24,481
Capital lease to leasing company - \$21,806 due in monthly installments of \$668 through August 2010, bearing interest at 6.9%.	<u>11,400</u>
Total	\$ <u>519,268</u>

The annual requirements to amortize long-term debt outstanding at June 30, 2009, are as follows:

Year ending June 30,	Bonded Debt		Grants and Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 10,750	\$ 22,629	\$ 14,329	\$ 1,627
2011	10,398	20,783	8,431	901
2012	10,876	20,305	7,396	253
2013	11,376	19,805	-	-
2014	11,898	19,283	-	-
2015-2019	68,210	87,694	-	-
2020-2024	85,384	70,520	-	-
2025-2029	106,884	49,020	-	-
2030-2034	133,797	22,107	-	-
2035-2039	<u>28,139</u>	<u>615</u>	-	-
Total	\$ <u>477,712</u>	\$ <u>332,761</u>	\$ <u>30,156</u>	\$ <u>2,781</u>

The Water Revenue Bonds contain the following bond indenture restrictions:

1. The Town shall maintain a reserve fund into which monthly deposits of \$130 will be made. The reserve fund balance was \$82 at June 30, 2009. Deposits shall be made into the fund until a balance of \$31,180 has been accumulated into the fund. At June 30, 2009, the Town was not in compliance with this covenant.
2. The Town shall maintain a contingency fund into which monthly deposits of \$129 will be made. The depreciation fund balance was \$348 at June 30, 2009. At June 30, 2009, the Town was not in compliance with this covenant.

**TOWN OF WATERPROOF
WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 9 - RETIREMENT SYSTEMS

Employees of the Town of Waterproof are members of the Federal social security system and are covered by no other retirement system. The employer portion of the social security payroll tax is reflected in payroll taxes in the various statements of income.

NOTE 10 - RESERVED AND DESIGNATED RETAINED EARNINGS/FUND BALANCES

Net assets of the utility fund were restricted in the amount of \$430 to represent amounts set aside as required by debt service covenants and amounts of \$725 were set aside as grant proceeds pledged to purchase certain assets.

**SECTION III
OTHER REPORTS**



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

The Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waterproof, Louisiana as of and for the year ended June 30, 2009, which collectively comprise the Town of Waterproof, Louisiana's basic financial statements and have issued our report thereon dated January 19, 2011. We did not express an opinion on the financial statements described above because we found insufficient documentation to support transactions, classifications, and disclosures in the financial statement.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Waterproof, Louisiana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Waterproof, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Waterproof, Louisiana's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings as 2009-1, 2009-3, 2009-4, and 2009-5, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Waterproof, Louisiana'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 object 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 is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as 2009-2 and 2009-6.

The Town of Waterproof, Louisiana's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Town of Waterproof, Louisiana's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Aldermen, the Legislative Auditor of the State of Louisiana, 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. However, this report is a matter of public record and its distribution is not limited.



Natchez, Mississippi
January 19, 2011

**SECTION IV
SCHEDULE OF FINDINGS**

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued on the basic financial statements: | |
| Governmental Activities | Disclaimer |
| Business-Type Activities | Disclaimer |
| Major Funds: | |
| General Funds | Disclaimer |
| Utility Fund | Disclaimer |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| 3. Noncompliance material to the basic financial statements? | Yes |

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2009

Reference No.	Fiscal Year Finding Initially Occurred	Section I - Internal Control and Compliance Material to the Financial Statements:	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
2006-1	6/30/2006	<p>Budget and Actual Expenditures Variance The Town of Waterproof was under budget by 9.7% in expenditures. State law requires that actual revenues and expenditures vary by less than 5% from budgeted amounts.</p> <p><u>Recommendation</u> It was recommended that the Town more closely monitor budget performance and amend the budget when necessary.</p>	Not determinable	To be corrected for the fiscal year ended June 30, 2011.
2008-1	6/30/2007	<p>Controls Over Financial Reporting As discussed in current year finding 2009-1, the Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period being audited, was recently convicted of malfeasance and felony theft, and the Police Chief has been indicted on similar charges - many of which were detailed in the LLAAS report.</p> <p>None of the recommendations in the LLAAS report had been acted upon by year-end, and we found most documentation related to transactions occurring through June 30, 2009, to be nonexistent. As a result, we will disclaim an opinion on these financial statements.</p>	No	To be corrected for the fiscal year ended June 30, 2011.

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2009

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)				
2008-02	6/30/2007	<p><u>Late Report</u> The Town is required to submit an audit of its annual financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end.</p> <p><u>Recommendation</u> It was recommended that financial records be ready for audit and a CPA engaged to start the audit within forty-five days of year end.</p>	No	To be corrected for the fiscal year ended June 30, 2011.
2008-03	6/30/2007	<p><u>Controls Over Recording</u> The Town's financial transactions were not posted or not being posted in a timely manner to the general ledger.</p> <p><u>Recommendation</u> We recommended that the Town take steps to ensure that the books of account are prepared and maintained on a monthly basis.</p>	No	To be corrected for the fiscal year ended June 30, 2011.
2008-04	6/30/07	<p><u>Controls Over Account Reconciliation</u> Several general ledger accounts, primarily cash, accounts receivable, and accounts payable are not being reconciled on a timely basis.</p> <p><u>Recommendation</u> We recommend that accounting personnel reconcile cash, accounts receivable, and accounts payable to supporting documentation and the general ledger on a monthly basis.</p>	No	To be corrected for the fiscal year ended June 30, 2011.

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding to the Financial Statements: (continued)	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
2008-05	6/30/2007	<p><u>Control Over Expenditures</u> During the engagement, original invoices and other supporting documentation were not available.</p> <p><u>Recommendation</u> We recommended the Town implement appropriate procedures to ensure expenditures are properly authorized and paid on a timely basis.</p>	No	To be corrected for the fiscal year ended June 30, 2011.
2008-06	6/30/2007	<p><u>Omitted Reports</u> The Town declined to present the required basic financial statement – the Statement of Cash Flows – for the Utility Fund and the Required Supplementary Information – Management’s Discussion and Analysis and the Budgetary Comparison Schedule – for the fiscal year ended June 30, 2009.</p> <p><u>Recommendation</u> We recommended that the Town include in future financial statements all information required by generally accepted accounting principles and governmental accounting and auditing standards.</p>	No	To be corrected for the fiscal year ended June 30, 2011.

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2009

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section I – Internal Control and Compliance Material to the Financial Statements:			
2009-1	<p><u>Controls Over Financial Reporting</u> The Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period being audited, was recently convicted of malfeasance and felony theft, and the Police Chief has been indicted on similar charges – many of which were detailed in the LLAAS report.</p> <p>None of the recommendations in the LLAAS report had been acted upon by year-end, and we found most documentation related to transactions occurring through June 30, 2009, to be non-existent. As a result, we will disclaim an opinion on these financial statements.</p>	<p>The new Mayor and Board of Aldermen plan to correct all compliance issues and recommendations prior to the end of the fiscal year ended June 30, 2011.</p>	Caldwell Flood, Mayor
2009-2	<p><u>Recommendation</u> We recommend that the Town address all issues detailed in the Legislative Auditor's "Advisory Services Report".</p> <p><u>Late Report</u> The Town is required to submit an audit of its annual financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end. As of January 1, 2011, the audited financial statements for the fiscal years ended June 30, 2008 and 2009, which were due by December 31, 2008 and 2009, respectively, had not been submitted.</p> <p><u>Recommendation</u> We recommend that the Town engage a CPA firm in a timely manner to assure that all subsequent audits are filed with the Louisiana Legislative Auditor in a timely manner.</p>	<p>The new Mayor and the Board of Aldermen plan to assure that fiscal year ended June 30, 2011, audit is timely filed with the Louisiana Legislative Auditor.</p>	Caldwell Flood, Mayor

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2009

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section 1 - Internal Control and Compliance Material to the Financial Statements: (continued)			
2009-3	<p><u>Controls Over Recording</u> During the fiscal year ended June 30, 2008, the Town's financial transactions were not posted to the general ledger in a timely manner.</p>	<p>The Town has hired a local CPA, independent of the Firm that does its annual audit, to compile monthly general ledgers and financial statements for the fiscal year ended June 30, 2011, and beyond.</p>	Caldwell Flood, Mayor
<p><u>Recommendation</u> We recommend the Town take steps to ensure that the books of account are prepared and maintained on a monthly basis.</p>			
2009-4	<p><u>Control Over Account Reconciliation</u> Several general ledger accounts, primarily cash, accounts receivable, and accounts payable are not being reconciled on a timely basis.</p>	<p>The Town has hired a local CPA, independent of the Firm that does its annual audit, to compile monthly general ledgers and financial statements for the fiscal year ended June 30, 2011, and beyond.</p>	Caldwell Flood, Mayor
<p><u>Recommendation</u> We recommend that accounting personnel reconcile cash, accounts receivable, and accounts payable to supporting documentation and the general ledger on a monthly basis.</p>			

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2009

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)			
2009-5	<p><u>Control Over Expenditures</u> During the engagement, original invoices and other supporting documentation were not available.</p>	<p>The new Mayor and the Board of Aldermen plan to assure that appropriate procedures and systems to authorize, document, file, and pay expenditures are in place prior to the end of the fiscal year ended June 30, 2011.</p>	Caldwell Flood, Mayor
<p><u>Recommendation</u> We recommend the Town implement appropriate procedures to ensure expenditures are properly authorized, documented, filed, and paid on a timely basis.</p>			
2009-6	<p><u>Omitted Reports</u> The Town declined to present the required basic financial statement - the Statement of Cash Flows - for the Utility Fund and the Required Supplemental Information - Management's Discussion and Analysis and the Budgetary Comparison Schedule - for the fiscal year ended June 30, 2009.</p>	<p>The new Mayor and the Board of Aldermen plan to present the Statement of Cash Flows and the Required Supplemental Information with the timely filed financial statements for the fiscal year ended June 30, 2011.</p>	Caldwell Flood, Mayor
<p><u>Recommendation</u> We recommend that the Town include in future financial statements all information required by generally accepted accounting principles and governmental accounting and auditing standards.</p>			