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TOWN OF WATERPROOF, LOUISIANA
General Purpose Financial Statements
With Independent Auditors' Report
As of and for the Year Ended June 30, 2003
With Supplemental Information Schedules

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

Release Date 1-21-04

**TOWN OF WATERPROOF, LOUISIANA
YEAR ENDED JUNE 30, 2003
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SECTION I – GENERAL PURPOSE FINANCIAL STATEMENTS

SWITZER, HOPKINS & MANGE

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

**Honorable Mariah J. Cooper, Mayor
and Members of the Board of Aldermen
Town of Waterproof, Louisiana**

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

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Town of Waterproof, Louisiana, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Waterproof, Louisiana. Such information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Honorable Mariah Cooper, Mayor
Town of Waterproof, Louisiana
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In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2003 on our consideration of the Town of Waterproof, Louisiana's internal control structure and on its compliance with laws and regulations.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of Waterproof, Louisiana taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Ferriday, Louisiana
October 31, 2003

Switzer, Hopkins & Manger

TOWN OF WATERPROOF, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2003

	<u>Government Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Account Groups</u>			<u>Totals</u>		
	<u>General</u>	<u>Debt Service</u>		<u>Enterprise</u>	<u>General</u>	<u>Fixed Assets</u>	<u>Long-Term Debt</u>	<u>(Memorandum Only) 2003</u>	<u>2002</u>
					\$	\$	\$		
ASSETS AND OTHER DEBITS									
Cash	\$ 15,898	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,898	\$ 140,251	
Receivables, net, where applicable of allowance for uncollectibles (Note 1)									
Utility customers	-	-	34,549	-	-	-	34,549	29,110	
Others	32,577	-	47	-	-	-	32,624	41,786	
Inventory	-	-	3,161	-	-	-	3,161	1,411	
Prepaid expenses	-	-	626	-	-	-	626	-	
Restricted assets (Note 1 and 4):									
Cash	-	-	56,875	-	-	-	56,875	51,708	
General fixed assets	-	-	-	661,796	-	-	661,796	627,423	
Utility plant and equipment (Note 6)	-	-	5,278,732	-	-	-	5,278,732	5,257,898	
Accumulated Depreciation (Note 6)	-	-	(2,411,414)	-	-	-	(2,411,414)	(2,281,827)	
Amount to be provided for retirement of general long-term debt	-	-	-	-	41,304	-	41,304	50,000	
Total assets	<u>\$ 48,475</u>	<u>\$ -</u>	<u>\$ 2,962,576</u>	<u>\$ 661,796</u>	<u>\$ 41,304</u>	<u>\$ -</u>	<u>\$ 3,714,151</u>	<u>\$ 3,917,760</u>	

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 2003

	General Fund Types		Proprietary		Account Groups			Totals	
	General	Debt Service	Fund Type	Enterprise	General Fixed Assets	Long-Term Debt	(Memorandum Only)		
							2003	2002	
LIABILITIES, FUND EQUITY AND OTHER CREDITS									
LIABILITIES									
Cash overdraft	\$ -	\$ -	\$ 18,273	\$ -	\$ -	\$ -	\$ 18,273	\$ -	
Accounts payable	34,230	-	31,513	-	-	-	65,743	41,122	
Accrued compensated absences	3,480	-	-	-	-	-	3,480	5,460	
Customer deposits	-	-	29,895	-	-	-	29,895	29,751	
Interest payable	-	-	195	-	-	-	195	198	
Capital leases	-	-	35,541	-	-	-	35,541	-	
Revenue bonds	-	-	527,820	-	-	-	527,820	534,881	
Note payable	-	-	-	-	-	41,304	41,304	50,000	
Total liabilities	37,710	-	643,237	-	-	41,304	722,251	661,412	
FUND EQUITY AND OTHER CREDITS									
Contributed capital	-	-	3,588,320	-	-	-	3,588,320	3,588,320	
Investment in general fixed assets	-	-	-	-	661,796	-	661,796	627,423	
Retained earnings:									
Unreserved (deficit)	-	-	(1,268,981)	-	-	-	(1,268,981)	(1,096,324)	
Fund balances:									
Unreserved	10,765	-	-	-	-	-	10,765	136,929	
Total fund equity	10,765	-	2,319,339	-	661,796	-	2,991,900	3,256,348	
Total liabilities and fund equity	\$ 48,475	\$ -	\$ 2,962,576	\$ -	\$ 661,796	\$ 41,304	\$ 3,714,151	\$ 3,917,760	

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Governmental Fund Types</u>		Totals	
	<u>General</u>	Debt <u>Service</u>	(Memorandum Only) <u>2003</u>	<u>2002</u>
Revenues:				
Taxes	\$ 47,523	\$ -	\$ 47,523	\$ 55,034
Licenses and permits	18,696	-	18,696	16,636
Intergovernmental	4,663	-	4,663	96,769
Fines	164,221	-	164,221	226,298
Miscellaneous	<u>27,884</u>	-	<u>27,884</u>	<u>5,954</u>
Total revenues	<u>262,987</u>	-	<u>262,987</u>	<u>400,691</u>
Expenditures:				
Current -				
General government	139,168	-	139,168	134,588
Public safety-				
Police and fire	227,306	-	227,306	229,435
Capital outlay	34,373	-	34,373	36,342
Debt service-				
Principal retirement	-	8,696	8,696	-
Interest paid	-	<u>3,495</u>	<u>3,495</u>	-
Total expenditures	<u>400,847</u>	<u>12,191</u>	<u>413,038</u>	<u>400,365</u>
Excess of revenues over (under) expenditures	(137,860)	(12,191)	(150,051)	326
Other financing sources:				
Transfers in	<u>11,696</u>	<u>12,191</u>	<u>23,887</u>	<u>4,105</u>
Excess of revenues and other sources over expenditures and other uses	(126,164)	-	(126,164)	4,431
Fund balances, beginning	<u>136,929</u>	-	<u>136,929</u>	<u>132,498</u>
Fund balances, ending	<u>\$ 10,765</u>	<u>\$ -</u>	<u>\$ 10,765</u>	<u>\$ 136,929</u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2003

	<u>General Fund Type</u>		<u>Debt Service Fund Type</u>		Variance - Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	
Revenues:					
Taxes	\$ 57,000	\$ 47,523	\$ -	\$ -	\$ -
Licenses and permits	20,000	18,696	-	-	-
Intergovernmental	7,300	4,663	-	-	-
Fines	213,000	164,221	-	-	-
Miscellaneous	6,920	27,884	-	-	-
Total revenues	304,220	262,987	-	-	-
Expenditures:					
Current -					
General government	117,000	139,168	-	-	(22,168)
Public safety -					
Police and fire	201,255	227,306	-	-	(26,051)
Capital outlay	19,800	34,373	-	-	(14,573)
Debt service-					
Principal retirement	-	-	8,696	8,696	-
Interest paid	-	-	3,495	3,495	-
Total expenditures	338,055	400,847	12,191	12,191	(62,792)
Excess of revenues over (under) expenditures	(33,835)	(137,860)	(12,191)	(12,191)	104,205
Other financing (uses):					
Transfers in	40,000	11,696	12,191	12,191	28,304
Excess of revenues and other sources over expenditures and other uses	6,165	(126,164)	-	-	(132,329)
Fund balances, beginning	136,929	136,929	-	-	-
Fund balances, ending	\$ 143,094	\$ 10,765	\$ -	\$ -	\$ (132,329)

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND
UTILITY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS-PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
Operating revenues:		
Charges for services -		
Gas sales	\$ 242,926	\$ 178,362
Water sales	110,719	89,430
Sewer sales	52,881	50,821
Garbage sales	38,230	37,727
Backhoe and mowing charges	443	957
Miscellaneous revenues	48,510	16,130
Total operating revenues	<u>493,709</u>	<u>373,427</u>
 Operating expenses:		
Gas department expenses	244,822	170,664
Water department expenses	223,849	183,767
Sewer department expenses	80,721	80,658
Garbage department expenses	58,660	44,030
Backhoe and mowing expenses	11,017	10,895
Total operating expenses	<u>619,069</u>	<u>490,014</u>
 Operating (loss)	 (125,360)	 (116,587)
 Nonoperating revenues (expenses):		
Interest earned	706	1,034
Interest expense	<u>(24,116)</u>	<u>(24,238)</u>
Total nonoperating revenues (expenses):	<u>(23,410)</u>	<u>(23,204)</u>
 (Loss) before operating transfers	 (148,770)	 (139,791)
 Operating transfers:		
Transfers (out)	<u>(23,887)</u>	<u>(4,105)</u>
 Net (loss)	 (172,657)	 (143,896)
 Retained earnings, beginning (deficit)	 <u>(1,096,324)</u>	 <u>(952,428)</u>
 Retained earnings, ending (deficit)	 <u>\$ (1,268,981)</u>	 <u>\$ (1,096,324)</u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND
UTILITY FUND

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 488,270	\$ 372,825
Cash payments to suppliers for goods and services	(337,953)	(241,277)
Cash payments to employees for services	<u>(104,772)</u>	<u>(87,946)</u>
Net cash provided by operating activities	<u>45,545</u>	<u>43,602</u>
Cash flows from non-capital financing activities:		
Operating transfers (to) other funds	(23,887)	(4,105)
Increase in consumer deposits	<u>144</u>	<u>1,271</u>
Net cash provided (used) by non-capital financing activities	<u>(23,743)</u>	<u>(2,834)</u>
Cash flows from capital and related financing activities:		
Principal paid on notes	(17,711)	(6,940)
Interest paid on notes	(24,119)	(24,242)
Acquisition of fixed assets	<u>-</u>	<u>(2,103)</u>
Net cash (used) by capital and related financing activities	<u>(41,830)</u>	<u>(33,285)</u>
Cash flows from investing activities:		
Interest earned	<u>660</u>	<u>1,035</u>
Net increase in cash and cash equivalents	(19,368)	8,518
Cash and cash equivalents at July 1, 2002	<u>76,243</u>	<u>67,725</u>
Cash and cash equivalents at June 30, 2003	<u>\$ 56,875</u>	<u>\$ 76,243</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (125,360)	\$ (116,587)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	154,943	151,381
Changes in assets and liabilities:		
(Increase) in accounts receivable	(5,439)	(602)
(Increase) in inventories	(1,750)	(639)
(Increase) in prepaid expenses	(626)	-
Increase (decrease) in cash overdraft	18,273	(2,420)
Increase in accounts payable	<u>5,504</u>	<u>12,469</u>
Net cash provided by operating activities	<u>\$ 45,545</u>	<u>\$ 43,602</u>

The following notes are an integral part of these financial statements.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

INTRODUCTION

1. **The Town of Waterproof, Louisiana was incorporated under 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 elective members and they are paid \$250 per month.**
4. **The Town is located in the southern portion of Tensas Parish, Louisiana. Tensas Parish is located in Northeast Louisiana.**
5. **The population of Waterproof, Louisiana is 1,082 persons.**
6. **The Town of Waterproof, Louisiana has twelve full time employees.**
7. **The Town of Waterproof, Louisiana has approximately 430 utility customers.**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Town of Waterproof, Louisiana have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

As the municipal governing authority, for reporting purposes, the Town of Waterproof, Louisiana is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (municipality), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GASB Statement No. 14 established criteria for determining which component units should be considered part of the Town of Waterproof, Louisiana for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

- 1. Appointing a voting majority of an organization's governing body, and
 - a) The ability of the municipality to impose its will on that organization and/or**
 - b) The potentials for the organization to provide specific financial benefit to or impose specific financial burdens on the municipality.****
- 2. Organizations for which the municipality does not appoint a voting majority but are fiscally dependent on the municipality.**
- 3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.**

As required by generally accepted accounting principles, these financial statements present the Town of Waterproof, Louisiana (the primary government) and its component units. There are no component units included in the accompanying financial statements as either blended with the municipality funds or discretely presented.

C. FUND ACCOUNTING

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

A fund is a separate accounting entity with a self-balancing set of accounts. On the other hand, an account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds of the municipality are classified into two categories: governmental and proprietary. In turn, each category is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental Funds

Governmental funds are used to account for all or most of the municipality's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long term debt. Governmental funds include:

- 1. General Fund – the general operating fund of the municipality and accounts for all financial resources, except those required to be accounted for in other funds.**
- 2. Debt Service Funds – account for transactions relating to resources retained and used for the payment of principal and interest on those long term obligations recorded in the general long term obligations account group.**

Proprietary Funds

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

- 1. Enterprise funds—account for operations (a) 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 revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.**

General Fixed Assets and Long Term Debt

The accounting and reporting treatment applied to the property, plant and equipment and long-term liabilities associated with a fund are determined by its measurement focus.

All governmental fund type operations are accounted for on a spending or “financial flow” measurement focus and only current assets and current liabilities are generally included on their balance sheets.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets.

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

Gas lines, Sewer lines and plant	50 years
Vehicles and equipment	3 to 10 years

All fixed assets are stated a historical cost.

D. BASIS OF ACCOUNTING

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

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and sales taxes are considered “measurable” when in the hands of collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when earned and their expenses are recognized when incurred. Bad debts are recognized when they become uncollectable.

E. BUDGETS AND BUDGETARY ACCOUNTING

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

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.
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). Budgeted amounts are as originally adopted, or as amended from time to time by the Board of Aldermen. Such amendments were not material in relation to the original appropriations.

F. INVENTORIES

Inventories or material and supplies are valued at lower of cost or market.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. TOTAL COLUMNS ON COMBINED STATEMENTS - OVERVIEW

Total columns on the combined statements – overview are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

H. COMPARATIVE DATE

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town’s financial position and operation. However, comparative (i.e., presentation of prior year totals by fund type) data have not been represented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

I. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the municipality may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

J. FUND EQUITY

Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds when such resources are restricted for the acquisition or construction of capital assets. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources.

K. ENCUMBRANCES

The Town of Waterproof does not use encumbrance accounting.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 – CASH AND CASH EQUIVALENTS

Under state law, the Town may 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 principal offices in Louisiana.

At June 30, 2003, the Town had cash and cash equivalents according to the bank's balances totaling \$94,254 as follows:

Demand deposits	\$ 65,760
Time deposits	<u>28,494</u>
Total	<u>\$ 94,254</u>

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. Cash and cash equivalents (bank balances) at June 30, 2003 of \$94,254 were secured by Federal deposit insurance.

NOTE 3 – RECEIVABLES

The following is a summary of receivables at June 30, 2003:

	<u>General Fund</u>	<u>Utility Fund</u>
Fines	\$ 67,577	\$ -
Utility fees	-	54,549
Accrued interest	-	47
Less allowance for uncollectables	<u>(35,000)</u>	<u>(20,000)</u>
Total accounts receivable	<u>\$ 32,577</u>	<u>\$ 34,596</u>

NOTE 4 – RESTRICTED ASSETS PROPRIETARY FUND TYPE

Certain assets were restricted for debt service and customer deposits. These assets consisted of the following:

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 4 – RESTRICTED ASSETS PROPRIETARY FUND TYPE - CONTINUED

Sinking fund	\$ 5,775
Customer deposits	29,895
Bond reserve fund	9,602
Bond contingency fund	<u>11,603</u>
	<u>\$ 56,875</u>

NOTE 5 – CHANGES IN GENERAL FIXED ASSETS ACCOUNT GROUP

A summary of changes in general fixed assets follows:

	<u>Balance</u> <u>6/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2003</u>
Land and Buildings	\$363,498	\$ 3,078	\$ -	\$ 366,576
Equipment	<u>263,925</u>	<u>31,295</u>	<u>-</u>	<u>295,220</u>
Total	<u>\$627,423</u>	<u>\$ 34,373</u>	<u>\$ -</u>	<u>\$ 661,796</u>

NOTE 6 – PROPRIETARY FUND PROPERTY, PLANT AND EQUIPMENT

A summary of proprietary fund's plant and equipment at June 30, 2003 follows:

Water	\$ 3,004,976
Sewer	1,322,155
Gas	809,106
Garbage	138,933
Backhoe and Mowing	<u>3,562</u>
Total plant and equipment	5,278,732
Less accumulated depreciation	<u>(2,411,414)</u>
Net	<u>\$ 2,867,318</u>

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 7 – CHANGES IN LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Town of Waterproof for the year ended June 30, 2003:

	<u>Bonded Debt</u>	<u>Notes Payable</u>	<u>Capital Leases</u>	<u>Total</u>
Debt payable at June 30, 2002	\$ 534,881	\$ 50,000	\$ -	\$ 584,881
Additions	-	-	46,191	46,191
Retirements	<u>(7,061)</u>	<u>(8,696)</u>	<u>(10,650)</u>	<u>(26,407)</u>
Debt payable at June 30, 2003	<u>\$ 527,820</u>	<u>\$ 41,304</u>	<u>\$ 35,541</u>	<u>\$ 604,665</u>

Long-term debt payable at June 30, 2003 are comprised of the following issues:

Water Revenue Bonds:

\$534,881 in revenue bonds due in annual installments of \$31,181 through July 2035; interest at 4.5%

Notes Payable:

\$50,000 in notes payable due in annual installments of \$12,191 through August 2006; interest at 6.0%

Capital Leases:

\$35,541 in capital leases due in annual installments of \$10,649 through July 2006; interest at 7.66%

The annual requirements to amortize the bonds as of June 30, 2003 are as follows:

<u>Year Ended</u>	<u>Bonded Debt</u>	<u>Note Payable</u>	<u>Capital Leases</u>	<u>Total</u>
2004	\$ 31,181	\$ 12,191	\$ 10,649	\$ 54,021
2005	31,181	12,191	10,649	54,021
2006	31,181	12,191	10,649	54,021
2007	31,181	12,191	10,649	54,021
2008	31,181	-	-	31,181
Thereafter	<u>863,361</u>	<u>-</u>	<u>-</u>	<u>863,361</u>
	1,019,266	48,764	42,596	1,110,626
Less amounts representing interest	<u>(491,446)</u>	<u>(7,460)</u>	<u>(7,055)</u>	<u>(505,961)</u>
	<u>\$ 527,820</u>	<u>\$ 41,304</u>	<u>\$ 35,541</u>	<u>\$ 604,665</u>

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 8 – PROPRIETARY FUND BOND INDENTURE RESTRICTIONS

The Town's proprietary fund bonds are governed by bond indenture, the terms of which are summarized as follows:

1. Commencing with the month following completion of improvements financed with the proceeds of the bonds, a reserve fund shall be maintained. For the period August 20, 1997 through July 20, 2035, \$130 must be deposited into this fund monthly until \$31,180 has been accumulated.
2. Commencing with the month following completion of improvements financed with the proceeds of the bonds, a contingency fund shall be maintained. For the period August 20, 1995 through July 20, 2035, \$129 must be deposited monthly.
3. The Town is required to deposit \$2,598 monthly into a sinking fund. Payments from the sinking fund are made to pay the bonds and interest.

The Town is in compliance with these restrictions.

NOTE 9 – DEFICIT RETAINED EARNINGS

The enterprise fund deficit in retained earnings of \$1,268,981 is the result of revenues inadequate to cover expenses including depreciation for several years.

NOTE 10 – 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 September or October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1, of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

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

For the year ended June 30, 2003 taxes of 7.39 mills were levied on property with assessed valuations totaling \$1,506,005 and were dedicated to general corporate purposes.

Total ad valorem taxes levied were \$11,129 during the year ended June 30, 2003.

NOTE 11 – RETIREMENT COMMITMENTS

The Town of Waterproof employees are all members of the social security system and are members of no other retirement plan. The expense of the social security is reflected in payroll taxes in the various statements of income.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 12 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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.

NOTE 13 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Other</u>	<u>Total</u>
Operating Revenues	\$ 242,926	\$ 110,719	\$ 52,881	\$ 38,230	\$ 48,953	\$ 493,709
Depreciation	30,458	87,513	33,583	3,299	90	154,943
Operating (loss)	(1,896)	(113,130)	(27,840)	(20,430)	37,936	(125,360)
Net (loss)	(1,896)	(160,427)	(27,840)	(20,430)	37,936	(172,657)
Plant, property & equipment, net additions	-	-	-	-	-	-
Net working capital	-	(21,124)	-	-	-	(21,124)
Total assets	273,612	1,822,472	822,790	42,892	810	2,962,576
Long-term liabilities payable from operating revenues	-	643,237	-	-	-	643,237
Total equity	\$ 273,612	\$ 1,179,235	\$ 822,790	\$ 42,892	\$ 810	\$ 2,319,339

SECTION II – SUPPLEMENTAL INFORMATION SCHEDULES

GENERAL FUND

**To account for resources traditionally associated with governments which
are not required to be accounted for in another fund.**

TOWN OF WATERPROOF, LOUISIANA
GENERAL FUND

COMPARATIVE BALANCE SHEET
JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
<u>ASSETS</u>		
Cash	\$ 15,898	\$ 115,716
Accounts receivable	<u>32,577</u>	<u>41,786</u>
Total assets	<u><u>48,475</u></u>	<u><u>157,502</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	34,230	15,113
Accrued compensated absences	<u>3,480</u>	<u>5,460</u>
Total liabilities	<u><u>37,710</u></u>	<u><u>20,573</u></u>
Fund balance - unreserved	<u><u>10,765</u></u>	<u><u>136,929</u></u>
Total liabilities and fund balance	<u><u>\$ 48,475</u></u>	<u><u>\$ 157,502</u></u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
GENERAL FUND

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

YEAR ENDED JUNE 30, 2003

With Comparative Actual Amounts for Year Ended June 30, 2002

	<u>Budget</u>	<u>2003 Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>(Memorandum Only) 2002 Actual</u>
Revenues:				
Taxes	\$ 57,000	\$ 47,523	\$ (9,477)	\$ 55,034
Licenses and permits				
Occupational licenses	20,000	18,696	(1,304)	16,636
Intergovernmental				
Grants	-	2,520	2,520	95,386
Tobacco tax	1,400	-	(1,400)	-
Fire insurance tax	4,100	-	(4,100)	-
Beer tax	1,800	2,143	343	1,383
Fines	213,000	164,221	(48,779)	226,298
Miscellaneous	6,920	27,884	20,964	5,954
Total revenues	<u>304,220</u>	<u>262,987</u>	<u>(41,233)</u>	<u>400,691</u>
Expenditures:				
General government	117,000	139,168	(22,168)	134,588
Public safety -				
Police and fire	201,255	227,306	(26,051)	229,435
Capital outlay	19,800	34,373	(14,573)	36,342
Total expenditures	<u>338,055</u>	<u>400,847</u>	<u>(62,792)</u>	<u>400,365</u>
Excess of revenues over expenditures	(33,835)	(137,860)	(104,025)	326
Other financing sources:				
Transfers in	40,000	11,696	28,304	11,049
Excess of revenues and other sources over expenditures	6,165	(126,164)	(132,329)	11,375
Fund balance, beginning	136,929	136,929	-	125,554
Fund balance, ending	<u>\$ 143,094</u>	<u>\$ 10,765</u>	<u>\$ (132,329)</u>	<u>\$ 136,929</u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
GENERAL FUND
STATEMENT OF EXPENDITURES COMPARED TO BUDGET (GAAP BASIS)
YEAR ENDED JUNE 30, 2003

With Comparative Actual Amounts for the Year Ended June 30, 2002

	<u>Budget</u>	<u>2003 Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>(Memorandum Only) 2002 Actual</u>
General government:				
Salaries	\$ 29,300	\$ 28,252	\$ 1,048	\$ 26,615
Aldermen fees	6,000	11,175	(5,175)	6,000
Payroll taxes	4,500	6,057	(1,557)	5,768
Legal and accounting	9,500	8,276	1,224	9,475
Insurance	20,000	33,436	(13,436)	23,780
Utilities and telephone	27,000	19,477	7,523	34,731
Publishing	1,500	2,189	(689)	2,138
Dues and subscriptions	400	289	111	546
Repairs	5,800	13,537	(7,737)	1,558
Supplies	4,000	1,488	2,512	8,174
Miscellaneous	8,500	14,504	(6,004)	15,140
Drug testing	500	488	12	663
Total general government	<u>117,000</u>	<u>139,168</u>	<u>(22,168)</u>	<u>134,588</u>
Public safety - police and fire:				
Salaries	156,000	170,028	(14,028)	144,671
Payroll taxes	9,000	12,951	(3,951)	10,250
Supplies	9,100	15,642	(6,542)	6,007
Bad debts - fines	100	-	100	30,187
Law enforcement equipment	3,000	6,438	(3,438)	12,505
Gas and oil	9,050	9,033	17	11,023
Repairs	950	8,984	(8,034)	7,183
Insurance	6,200	2,748	3,452	6,050
Miscellaneous	7,855	1,482	6,373	1,559
Total public safety	<u>201,255</u>	<u>227,306</u>	<u>(26,051)</u>	<u>229,435</u>
Capital outlay	<u>19,800</u>	<u>34,373</u>	<u>(14,573)</u>	<u>36,342</u>
Total expenditures	<u>\$ 338,055</u>	<u>\$ 400,847</u>	<u>\$ (62,792)</u>	<u>\$ 400,365</u>

The following notes are an integral part of these financial statements.

ENTERPRISE FUND

Utility Fund – To account for the provision of water, gas, sewer and sanitation services to residents of the Town and some residents of the Parish. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administrative, maintenance, financing and related debt service, and billings and collection.

TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND
UTILITY FUND

COMPARATIVE BALANCE SHEET
June 30, 2003

	2003	(Memorandum Only) 2002	2003	(Memorandum Only) 2002
ASSETS				
Current assets:				
Cash	\$ -	\$ 24,535		
Accounts receivable:				
Customers-net of allowance for uncollectables	34,549	29,110	\$ 18,273	\$ -
Accrued interest	47		31,513	26,011
Inventory	3,161	1,411	7,927	-
Prepaid expenses	626			
Restricted assets:				
Consumer deposits	29,895	27,972	29,895	29,751
Sinking fund	5,775	5,726	7,374	7,057
Total current assets	<u>74,053</u>	<u>88,754</u>	<u>95,177</u>	<u>63,017</u>
Restricted assets:				
Contingency fund	11,603	9,968	27,614	-
Reserve fund	9,602	8,042	520,446	527,824
Total restricted assets	<u>21,205</u>	<u>18,010</u>	<u>643,237</u>	<u>527,824</u>
Plant and equipment, at cost, net of accumulated depreciation (2003-\$2,411,414; 2002-\$2,281,827)			3,588,320	3,588,318
Total assets	<u>\$ 2,962,576</u>	<u>\$ 3,082,835</u>	<u>(1,268,981)</u>	<u>(1,096,324)</u>
			<u>2,319,339</u>	<u>2,491,994</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Current liabilities				
(Payable from current assets):				
Cash overdraft				
Accounts payable				
Capital lease-current portion				
Current liabilities (payable from restricted assets)				
Customer deposits			29,895	29,751
Revenue bonds-current portion			7,374	7,057
Accrued interest payable			195	198
Total current liabilities			<u>95,177</u>	<u>63,017</u>
Long-term liabilities:				
Capital lease-long term			27,614	-
Revenue bonds payable-long term			520,446	527,824
Total liabilities			<u>643,237</u>	<u>527,824</u>
Fund Equity:				
Contributed capital			3,588,320	3,588,318
Retained earnings -				
Unreserved (deficit)			<u>(1,268,981)</u>	<u>(1,096,324)</u>
Total fund equity			<u>2,319,339</u>	<u>2,491,994</u>
Total liabilities and fund equity			<u>\$ 2,962,576</u>	<u>\$ 3,019,818</u>

The following notes are an integral part of these financial statements.
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TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND
UTILITY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
Operating revenues:		
Charges for services -		
Gas sales	\$ 242,926	\$ 178,362
Water sales	110,719	89,430
Sewer sales	52,881	50,821
Garbage sales	38,230	37,727
Backhoe and mowing charges	443	957
Miscellaneous revenues	48,510	16,130
Total operating revenues	<u>493,709</u>	<u>373,427</u>
 Operating expenses:		
Gas department expenses	244,822	170,664
Water department expenses	223,849	183,767
Sewer department expenses	80,721	80,658
Garbage department expenses	58,660	44,030
Backhoe and mowing expenses	11,017	10,895
Total operating expenses	<u>619,069</u>	<u>490,014</u>
 Operating (loss)	 (125,360)	 (116,587)
 Nonoperating revenues (expenses):		
Interest earned	706	1,034
Interest expense	<u>(24,116)</u>	<u>(24,238)</u>
Total nonoperating revenues (expenses):	<u>(23,410)</u>	<u>(23,204)</u>
 (Loss) before operating transfers	 (148,770)	 (139,791)
 Operating transfers:		
Transfer (out)	<u>(23,887)</u>	<u>(4,105)</u>
 Net (loss)	 (172,657)	 (143,896)
 Retained earnings, beginning (deficit)	 <u>(1,096,324)</u>	 <u>(952,428)</u>
 Retained earnings, ending (deficit)	 <u>\$ (1,268,981)</u>	 <u>\$ (1,096,324)</u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND-UTILITY FUND

COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
Gas department:		
Gas purchases	\$ 160,717	\$ 82,310
Depreciation	30,458	30,458
Salaries	25,547	23,622
Insurance	2,810	891
Repairs	1,577	2,396
Utilities and telephone	914	145
Payroll taxes	1,422	1,911
Truck expenses	949	892
Office supplies	1,280	26
Gas leak survey	2,506	2,773
Bad debts	11,362	19,358
Supplies	2,455	1,898
Legal and accounting	644	1,900
Dues	599	244
Miscellaneous	1,582	1,840
Total gas expense	<u>244,822</u>	<u>170,664</u>
 Water department:		
Depreciation	87,513	87,388
Salaries	24,630	20,627
Chemicals	34,193	19,999
Utilities and telephone	9,212	17,564
Repairs	13,902	1,913
Insurance	-	5,426
Payroll taxes	3,165	1,784
Supplies	3,346	3,214
Office supplies	4,676	495
Truck expenses	260	220
Consulting	20,780	18,135
Drug tests	362	413
Travel	-	90
Bad debts	7,808	
Legal and accounting	5,734	3,440
Advertising	-	110
Dues	1,603	1,723
Miscellaneous	6,665	1,226
Total water expenses	<u>\$ 223,849</u>	<u>\$ 183,767</u>

The following notes are an integral part of these financial statements.

TOWN OF WATERPROOF, LOUISIANA
ENTERPRISE FUND-UTILITY FUND

COMPARATIVE STATEMENT OF OPERATING EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>2003</u>	(Memorandum Only) <u>2002</u>
Sewer department		
Depreciation	\$ 33,583	\$ 33,535
Utilities and telephone	11,975	12,721
Repairs	7,997	8,913
Salaries	17,016	10,268
Insurance	322	360
Tests	5,083	5,130
Office supplies	162	-
Payroll taxes	1,874	858
Truck expenses	21	32
Supplies	765	1,765
Chemicals	350	811
Miscellaneous	1,573	6,222
Advertising	-	43
Total sewer expenses	80,721	80,658
Garbage department:		
Depreciation	3,299	-
Salaries	34,832	33,090
Insurance	4,031	2,288
Truck expenses	859	1,050
Payroll taxes	2,342	2,683
Office supplies	32	15
Repairs	4,511	589
Supplies	7,800	3,875
Miscellaneous	954	440
Total garbage expenses	58,660	44,030
Backhoe and mowing department:		
Depreciation	90	-
Salaries	2,747	339
Repairs	6,910	6,766
Supplies	390	1,463
Miscellaneous	880	2,327
Total backhoe and mowing expenses	\$ 11,017	\$ 10,895

The following notes are an integral part of these financial statements.

**TOWN OF WATERPROOF, LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES**

For the Year Ended June 30, 2003

COMPENSATION PAID ALDERMEN

The schedule of compensation paid to aldermen is presented in compliance with House concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of the aldermen is included in the Legislative expenditures of the General Fund. In accordance with Louisiana Revised Statute 33:405 (G), the aldermen have passed an ordinance that sets their compensation at \$250 per month.

TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF COMPENSATION PAID ALDERMEN
FOR THE YEAR ENDED JUNE 30, 2003

<u>NAME</u>	<u>COMPENSATION</u>
Karen Johnson	\$ 1,625
Caldwell Flood	1,375
Herbert Williams	2,450
Ervin Sell	825
Robert Bethel	2,450
Bertha Brown	2,450
Total	<u>\$ 11,175</u>

SECTION III – COMPLIANCE/INTERNAL CONTROL

SWITZER, HOPKINS & MANGE

Certified Public Accountants

DENNIS R. SWITZER, CPA
H. MYLES HOPKINS, CPA
SUSAN L. MANGE, CPA

JOHN M. JONES, CPA 1921 - 1983

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

Honorable Mariah J. Cooper, Mayor
and Members of the Board of Aldermen
Town of Waterproof, Louisiana

We have audited the general purpose financial statements of Town of Waterproof, Louisiana as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Town of Waterproof, Louisiana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non compliance 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-1 and 2003-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Waterproof, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

**Honorable Mariah J. Cooper, Mayor
and Members of the Board of Aldermen
Page Two**

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Town of Waterproof, Louisiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition we discovered is described in the accompanying schedule of findings and questioned costs as item 2003-3 and 2003-4.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, Town City Council 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. Under Louisiana Revised Statute 24:413, this report is distributed by the Legislative Auditor as a public document.

**Ferriday, Louisiana
October 31, 2003**

Switzer, Hopkins & Manger

**SECTION IV – SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

TOWN OF WATERPROOF, LOUISIANA

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2003**

Summary of Audit Results

- 1. The auditor's report expresses an unqualified opinion on the General Purpose Financial Statements.**
- 2. Two reportable conditions were disclosed during the audit of the financial statements and is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards.**
- 3. Two instances of noncompliance with certain laws and regulations of the Town of Waterproof, Louisiana were disclosed during the audit.**

Reportable Conditions

2003-1 Expenditures in Excess of Budget

We noted that the Town's expenditures were \$400,847 in the general fund. The Town's expenditures budget for the general fund was \$338,055. Expenditures were 18.6% in excess of the budget and this is a violation of State law. According to State law expenditures may not exceed 5% of the amount budgeted.

We recommend that the Town spend within the budget in future years.

See response attached.

2003-2 Vacation Pay

During the year the Town paid \$7,055.96 to eleven (11) employees for vacation pay. This pay was given to these employees in addition to their regular pay for the same time period. This is a violation of Article 7, section 14 of the Louisiana constitution.

We recommend that the practice of paying employees for vacation time in addition to regular pay for the same time period be eliminated.

See response attached.

TOWN OF WATERPROOF, LOUISIANA

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2003**

2003-3 Segregation of Duties

We noted that the Town of Waterproof, Louisiana does not have adequate segregation of duties. The Town has only two employees in the Town Hall and they have control over almost all financial transactions and record keeping.

To increase internal controls, we recommend adequate segregation of duties be obtained if possible.

See response attached.

2003-4 NSF Charges

During the year the Town paid \$4,518 in NSF charges to a bank. Charges per month subsequent to June 30, 2003 have continued at a higher rate. This is an expense that can be eliminated by not mailing checks when there is no cash in the bank accounts.

We recommend that the Town not mail any checks to pay invoices until there are sufficient funds in the bank account to cover the checks.

See response attached.

TOWN OF WATERPROOF, LOUISIANA
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

INTERNAL CONTROL FINDINGS

2002-1 Segregation of Duties
(For fiscal year ending June 30, 2002)

Condition: **There is an insufficient segregation of duties to have an effective internal control.**

Current status: **This finding still applies and is noted in the current audit for the year ending June 30, 2003. (See current finding noted as 2003-3).**

SECTION V – MANAGEMENT LETTER

SWITZER, HOPKINS & MANGE

Certified Public Accountants

DENNIS R. SWITZER, CPA
H. MYLES HOPKINS, CPA
SUSAN L. MANGE, CPA

JOHN M. JONES, CPA 1921 - 1983

October 31, 2003

Honorable Mariah J. Cooper, Mayor
and Members of the Board Aldermen
Town of Waterproof, Louisiana

In planning and performing our audit of the primary government financial statements of the Town of Waterproof, Louisiana of and for the year ended June 30, 2003, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements, and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated October 31, 2003 on primary government financial statements of the Town of Waterproof.

FINDING 2003-5 – FINANCIAL CONTITION

The Town experienced losses of \$126,164 in the General Fund and \$172,657 in the Utility Fund during the year ended June 30, 2003. Fines income in the months subsequent to June 30, 2003 are approximately one-half of the amount budgeted per month for the year. The amount budgeted for the year ended June 30, 2003 was \$172,000 and the collections so far indicate fines for the year will be approximately \$84,000. For the year ended June 30, 2003 the fines income was \$164,221. The reduction in fines income in the current year appears to present an even larger problem than the Town already had because of expenditures exceeding revenues.

We recommend that the Town immediately review its revenue and expenditure levels and make changes so that bills can be paid when they become due. More specifically we recommend the following:

1. In 1999 the Town began receiving the COPS grant. This grant pays for police officers. These additional police officers created a large amount of fines income that was used to pay police expenses. In 2003 the COPS grant income no longer exists and the Town has not adjusted its spending accordingly. The Town has reduced fines income because the police have reduced the number of tickets being issued. The Town can no longer afford a police department at the level of spending that is in place, which was \$227,306 last year. Fines revenues last year were \$164,221.

**Honorable Mariah J. Cooper, Mayor
and Members of the Board of Aldermen
Page Two**

Included in the expenditures created by the COPS grant were additional salaries of several Town personnel including the Mayor, Town Clerk, Assistant Clerk, Police Chief and Police Officers. Some of these additional expenditures still exist.

We recommend that the Town consider eliminating all of these additional expenditures created by the COPS grant. The Town should return the police department expenditures to the level that existed prior to the COPS grant.

- 2. The Town's property taxes for the current year are 7.39 mills. We recommend that the Town consider increasing this millage in order to bring in more revenues.**
- 3. Losses in the utility department were created because revenues from utility sales are less than expenditures. We recommend that the Town ask the Town's engineer to review the utility rates and increase them to a level that will allow the Town to pay its bills as they become due.**
- 4. We recommend that the Town investigate any other means to increase revenues and decrease expenditures.**

We would be pleased to discuss the above matters or respond to any questions at your convenience.

Sincerely,

Switzer, Hopkins & Mance

SECTION VI – RESPONSE

**TOWN OF WATERPROOF
POST OFFICE BOX 248
WATERPROOF, LOUISIANA 71375**

December 23, 2003

Switzer, Hopkins & Mange
Post Office Box 478
Ferriday, Louisiana 71334

Dear Mr. Hopkins:

In response to the audit report of the Town of Waterproof for the year ended June 30, 2003, we have the following response:

Finding 2003-1 - Expenditures in Excess of Budget

We will more closely monitor our expenditures in the future so that we comply with the budget law.

Finding 2003-2 - Vacation Pay

We will stop paying vacation pay.

Finding 2003-3 - Segregation of Duties

We do not have enough employees to segregate duties enough to satisfy the auditor. We do not have any plans to add any new employees or to segregate duties any more than we already have.

Finding 2003-4 - NSF Charges


We will try to mail checks only when we have funds in the bank to cover the amounts of the checks. This will eliminate the NSF charges.

Finding 2003-5 - Financial Condition

We will consider all of the auditors' suggestions concerning putting the Town in better financial condition. We are aware of the financial problems and need to increase revenues and or decrease expenses in the future.

This is our response to the findings of the audit for the year ended June 30, 2003.

Sincerely,


Mariah J. Cooper, Mayor
Town of Waterproof, Louisiana

SECTION VII – SINGLE AUDIT ACT REPORTS

SWITZER, HOPKINS & MANGE

Certified Public Accountants

DENNIS R. SWITZER, CPA
H. MYLES HOPKINS, CPA
SUSAN L. MANGE, CPA

JOHN M. JONES, CPA 1921 - 1983

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

Honorable Mariah Cooper, Mayor
and Members of the Board of Alderman
Town of Waterproof, Louisiana

Compliance

We have audited the compliance of the Town of Waterproof, Louisiana with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Town of Waterproof, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Waterproof Louisiana management. Our responsibility is to express an opinion on the Town of Waterproof, Louisiana's compliance based on our audit.

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

In our opinion, the Town of Waterproof, Louisiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Honorable Mariah Cooper, Mayor
and Members of the Board of Aldermen
Page Two

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider being material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Town of Waterproof, Louisiana as of and for the year ended June 30, 2003, and have issued our report thereon dated October , 2002. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Town City Council 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.

Ferriday, Louisiana
October 31, 2003

Switzer, Hopkins & Manges

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures/ Loans*</u>
USDA-Water System Loan	10.770	<u>\$ 527,820</u>

TOWN OF WATERPROOF, LOUISIANA
Schedule of Findings and Question Costs – Single Audit
FOR THE YEAR ENDED JUNE 30, 2003

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: **Unqualified**

Internal control over financial reporting:

- **Material weakness identified?** Yes **X** No
- **Reportable condition identified that are not considered to be material weaknesses?** **X** Yes No

Noncompliance material to financial statements noted? Yes **X** No

Federal Awards

Internal control over major programs:

- **Material weakness identified?** Yes **X** No
- **Reportable condition identified that are not considered to be material weaknesses?** Yes **X** No

Type of auditor’s report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes **X** No

Identification of major programs:

CFDA Numbers

10.770

Name of Federal Program or Cluster

USDA-Water System Loan

Dollar threshold used to distinguish between type A and type B programs: **\$ 300,000**

Auditee qualified as low-risk auditee? **X** Yes No

TOWN OF WATERPROOF, LOUISIANA
Schedule of Findings and Question Costs – Single Audit
FOR THE YEAR ENDED JUNE 30, 2003

SECTION II –Federal Award Findings and Questioned Costs

Major Program No. 1

- | | |
|---|--------------------------------------|
| ▪ Information on the federal program | USDA-Water System Loan 10.770 |
| ▪ Criteria or specific requirement | Circular A-133 |
| ▪ Condition | N/A |
| ▪ Questioned costs | N/A |
| ▪ Context | N/A |
| ▪ Effect | N/A |
| ▪ Cause | N/A |
| ▪ Recommendation | N/A |
| ▪ Management's response | N/A |