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VILLAGE OF FOREST
Forest, Louisiana

Annual Financial Statements
With Independent Auditor's Report
As of and for the Year Ended
December 31, 2004

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 4/13/05

VILLAGE OF FOREST
Forest, Louisiana

Annual Financial Statements
With Independent Auditor's Report
As of and for the Year Ended December 31, 2004
With Supplemental Information Schedules

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Independent Auditor's Report

VILLAGE OF FOREST

Forest, Louisiana

I have audited the basic financial statements of the Village of Forest as of December 31, 2004, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Village of Forest's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Village of Forest as of December 31, 2004, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

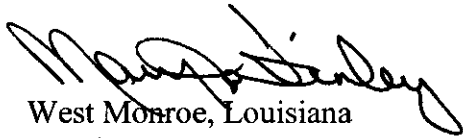
As described in Note 1 to the financial statements, the village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis--for State and Local Governments*, as of December 31, 2004.

Management's discussion and analysis, and supplementary information on pages 6 through 8 and 29 through 30, respectively are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information and reviewing the source of selected information. However, I did not audit the information and express no opinion on it.

VILLAGE OF FOREST
Forest, Louisiana
Independent Auditor's Report,
December 31, 2004

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Village of Forest. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 28, 2005, on the Village of Forest's compliance with laws and regulations, and my consideration of the agency's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



West Monroe, Louisiana
March 28, 2005

REQUIRED SUPPLEMENTARY INFORMATION
PART I

VILLAGE OF FOREST
Forest, Louisiana

Management's Discussion and Analysis
December 31, 2004

As management of the Village of Forest, we offer readers of the Village of Forest's financial statements this narrative overview and analysis of the financial activities of the Village of Forest for the year ended December 31, 2004. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the Village's basic financial statements. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Government-wide Financial Statements) provide information about the financial activities as a whole and illustrate a longer-term view of the Village's finances. The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund (Fund Financial Statements) tell how these services were financed in the short term as well as what remains for future spending. Fund Financial Statements also report the operations in more detail than the Government-Wide Financial Statements by providing information about the most significant funds. This report also contains other supplementary information in addition to the basic financial statements themselves.

Our auditor has provided assurance in her independent auditor's report that the Basic Financial Statements are fairly stated. The auditor, regarding the Required Supplemental Information and the Supplemental Information is providing varying degrees of assurance. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of Forest's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village of Forest's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Forest is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned, but unused, sick leave).

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Forest, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Forest can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village of Forest adopts an annual appropriated budget for the general fund. A budgetary comparison statement is provided for the major fund to demonstrate compliance with this budget.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses its enterprise fund to account for its water utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the enterprise fund, which is considered to be a major fund of the Village.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Village of Forest's performance.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, assets of the Village of Forest exceeded liabilities by \$462,785. Approximately 73% of the Village of Forest's net assets reflects its investment in capital assets (e.g., equipment), less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending.

The balance in unrestricted net assets is affected by two factors: 1) resources expended, over time, by the Village of Forest to acquire capital assets from sources other than internally generated funds (i.e., debt), and 2) required depreciation on assets being included in the statement of net assets for the first time.

Financial Analysis of the Government's Funds

As noted earlier, the Village of Forest uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2004, the General Fund unreserved, undesignated fund balance of \$11,991 showed a decrease of \$1,999 over December 31, 2003.

General Fund Budgetary Highlights

Differences between revenues of the original budget and the final budget were due primarily to an increase of anticipated occupational licenses revenue. Differences between expenditures of the original budget and the final budget were primarily due to an increase in personal services and materials and supplies.

Capital Asset and Debt Administration

Capital assets. The Village of Forest's investment in capital assets for its governmental activities as of December 31, 2004, amounts to \$15,745 (net of accumulated depreciation). This investment includes furniture and equipment. There was no increase in capital assets for the year ended December 31, 2004.

The reduction in capital assets is primarily attributable to the implementation of a capitalization threshold established by the village at the beginning of the fiscal year. The village anticipates that the new capitalization threshold will provide better management and accountability for capital assets.

Long-term debt. At the end of the fiscal year, the Village of Forest had business type activity debt outstanding, in the form of revenue bonds, of \$76,171. During the year ended December 31, 2004, \$9,685 of debt was paid in accordance with the debt agreement.

Requests for Information

This financial report is designed to provide a general overview of the Village of Forest's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Forest, P.O. Box 338, Forest, LA 71242.

March 28, 2005



BASIC FINANCIAL STATEMENTS

VILLAGE OF FOREST
Forest, Louisiana

STATEMENT OF NET ASSETS
December 31, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$11,164	\$44,467	\$55,631
Accounts receivable	1,236	10,228	11,464
Total current assets	12,400	54,695	67,095
Restricted assets - cash and cash equivalents		84,961	84,961
Capital assets - not depreciated	27,500		27,500
Capital assets (net of accumulated depreciation)	15,745	371,835	387,580
TOTAL ASSETS	\$55,645	\$511,491	\$567,136
LIABILITIES			
Current liabilities:			
Accounts payable	\$409	\$2,548	\$2,957
Customer meter deposits		24,835	24,835
Payable from restricted assets - accrued interest		388	388
Total current liabilities	409	27,771	28,180
Long term liabilities:			
Due in one year		3,823	3,823
Due in more than one year		72,348	72,348
Total long term liabilities	NONE	76,171	76,171
TOTAL LIABILITIES	409	103,942	104,351
NET ASSETS			
Invested in capital assets, net of related debt	43,245	295,664	338,909
Contributed capital (net of accumulated depreciation on fixed assets acquired with federal grant)		142,870	142,870
Retained earnings:			
Reserved for debt service		38,792	38,792
Reserved for contingencies		4,941	4,941
Unreserved - undesignated		(74,718)	(74,718)
Total retained earnings		(30,985)	(30,985)
Unrestricted	11,991		11,991
TOTAL NET ASSETS	\$55,236	\$407,549	\$462,785

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana

STATEMENT OF ACTIVITIES
December 31, 2004

	Governmental Activities	Business-Type Activities	Total Primary Government
Primary Government:			
Governmental Activities:			
Personal services	\$5,700		\$5,700
Operating services	6,187		6,187
Materials and supplies	1,114		1,114
Repairs and maintenance	2,485		2,485
Public safety	3,998		3,998
Depreciation expense	5,590		5,590
Total Governmental Activities	<u>25,074</u>	NONE	<u>25,074</u>
Business-type Activities:			
Water and sewer			
Salaries		41,838	41,838
Payroll taxes		3,235	3,235
Administrative		3,848	3,848
Sales tax		43	43
Utilities		15,366	15,366
Repairs and maintenance		14,679	14,679
Insurance		7,626	7,626
Materials and supplies		5,560	5,560
Testing expense		3,333	3,333
Telephone		1,682	1,682
Depreciation expense		21,135	21,135
Total Business-type Activities	NONE	<u>118,345</u>	<u>118,345</u>
Total Primary Government	<u>25,074</u>	<u>118,345</u>	<u>143,419</u>
Governmental Activities:			
Occupational licenses	6,806		6,806
Other revenue	5,688		5,688
Business-type Activity - Water sales		128,412	128,412
Total program revenues	<u>12,494</u>	<u>128,412</u>	<u>140,906</u>
Net Program Expenses (Revenues)	<u>(12,580)</u>	<u>10,067</u>	<u>(2,513)</u>
General revenues (expenses)			
Tax, franchise	4,987		4,987
Interest earned	4	546	550
Interest expense		(5,111)	(5,111)
Adjustment for depreciation on fixed assets acquired with federal grants		5,495	5,495
Total general revenues (expenses)	<u>\$4,991</u>	<u>\$930</u>	<u>\$5,921</u>
Change in Net Assets	(7,589)	10,997	3,408
Net Assets - Beginning of year	62,826	253,682	316,508
Net Assets - End of year	<u>\$55,237</u>	<u>\$264,679</u>	<u>\$319,916</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana
GOVERNMENTAL FUNDS

Balance Sheet, December 31, 2004

	<u>GOVERNMENTAL FUND TYPE - GENERAL FUND</u>	<u>PROPRIETARY FUND TYPE - WATER ENTERPRISE FUND</u>
ASSETS		
Current assets:		
Cash	\$11,164	\$44,467
Accounts receivables	<u>1,236</u>	<u>10,228</u>
Total current assets	12,400	54,695
Restricted assets - cash and equivalents		84,961
Water system plant and equipment (Net of accumulated depreciation)		<u>371,835</u>
TOTAL ASSETS	<u><u>\$12,400</u></u>	<u><u>\$511,491</u></u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable	\$409	\$2,548
Customer meter deposits		24,835
Payable from restricted assets - accrued interest		388
Revenue bonds payable		<u>76,171</u>
Total liabilities	<u>409</u>	<u>103,942</u>
Fund Equity:		
Contributed capital (net of accumulated depreciation on fixed assets acquired with federal grant)		142,870
Retained earnings:		
Reserved for debt service		38,792
Reserved for contingencies		4,941
Unreserved - undesignated		<u>220,946</u>
Total retained earnings	<u>NONE</u>	<u>264,679</u>
Fund balance - unreserved- undesignated	<u>11,991</u>	
Total Fund Equity	<u>11,991</u>	<u>407,549</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$12,400</u></u>	<u><u>\$511,491</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana

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

For the Year Ended December 31, 2004

	<u>Governmental Fund Type</u> <u>- General Fund</u>	
Total Fund Balances - Governmental Funds (Statement C)		<u>\$11,991</u>
Cost of capital assets	\$69,491	
Less: Accumulated depreciation	<u>(26,246)</u>	<u>43,245</u>
Net Assets (Statement A)		<u><u>\$55,236</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana
GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures,
and Changes in Fund Balances

For the Year Ended December 31, 2004

	<u>GENERAL FUND</u>
REVENUES	
Tax, franchise	\$4,987
Occupational licenses	6,806
Use of money and property - interest earnings	4
Other revenue	<u>5,688</u>
Total revenues	<u>17,485</u>
EXPENDITURES	
General government - current:	
Personal services	5,700
Operating services	6,187
Materials and supplies	1,114
Repairs and maintenance	2,485
Public safety	<u>3,998</u>
Total expenditures	<u>19,484</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(1,999)
FUND BALANCES AT BEGINNING OF YEAR	<u>13,990</u>
FUND BALANCES AT END OF YEAR	<u><u>\$11,991</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana

Reconciliation of Governmental Funds
Statement of Revenue, Expenditures, and Changes
in Fund Balances to the Statement of Activities

For the Year Ended December 31, 2004

	<u>Governmental Fund Type - General Fund</u>
Total net change in fund balances - governmental funds (Statement E)	(\$1,999)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation for the period	<u>(5,590)</u>
Change in net assets of governmental activities (Statement B)	<u><u>(\$7,589)</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
FOREST, Louisiana
PROPRIETARY FUND TYPE -
WATER ENTERPRISE FUND

Statement of Revenues, Expenses,
and Changes in Retained Earnings
For the Year Ended December 31, 2004

OPERATING REVENUES	
Water sales	<u>\$128,412</u>
OPERATING EXPENSES	
Salaries	41,838
Payroll taxes	3,235
Administrative	3,848
Sales tax	43
Utilities	15,366
Repairs and maintenance	14,679
Insurance	7,626
Materials and supplies	5,560
Testing Expense	3,333
Telephone	1,682
Depreciation	<u>21,135</u>
Total Operating Expenses	<u>118,345</u>
OPERATING INCOME	<u>10,067</u>
NON-OPERATING REVENUES (Expenses)	
Interest income	546
Interest expense	<u>(5,111)</u>
Total Non-Operating Revenues (expenses)	<u>(4,565)</u>
NET INCOME	<u>5,502</u>
OTHER FINANCING SOURCE	
Adjustment for depreciation on fixed assets acquired with federal grants	<u>5,495</u>
TOTAL NET INCOME AND OTHER FINANCING SOURCE	<u>10,997</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>253,682</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$264,679</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
FOREST, Louisiana
PROPRIETARY FUND TYPE -
WATER ENTERPRISE FUND

Statement of Cash Flows
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income	<u>\$10,067</u>
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	21,135
Decrease in accounts receivable	2,630
Decrease in accounts payable	(2,529)
Decrease in accrued interest payable	(49)
Total adjustments	<u>21,187</u>
Net cash provided by operating activities	<u>31,254</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Decrease in bonds payable	(9,685)
Interest expense	<u>(5,111)</u>
Total cash flows from capital and related financing activities	<u>(14,796)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	<u>546</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	17,004
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>112,424</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$129,428</u></u>

The accompanying notes are an integral part of this statement.

VILLAGE OF FOREST
Forest, Louisiana

Notes to the Financial Statements
As of and For the Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Forest was incorporated under the provisions of the Lawrason Act in 1966. The village operates under a Mayor-Board of Aldermen form of government. The mayor and aldermen serve four-year terms which expire on December 31, 2008.

The accompanying financial statements of the Village of Forest have been prepared in conformity with U.S. 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.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Village’s overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Village’s activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. REPORTING ENTITY

As the governing authority of the village, for reporting purposes, the Village of Forest is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the village), (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.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Village of Forest 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:

VILLAGE OF FOREST

Forest, Louisiana

Notes to the Financial Statements (Continued)

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

Based on the previous criteria, the village has determined that there are no component units that are part of the reporting entity.

**B. BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE STATEMENTS**

The village's basic financial statements include both government-wide (reporting the village as a whole) and fund financial statements (reporting the village's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type.

The Statement of Net Assets (Statement A) and the Statement of Activities (Statement B) display information about the reporting government as a whole. These statements include all the financial activities of the village.

In the Statement of Net Assets, governmental activities are presented on a consolidated basis and are presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term obligations. Net assets are reported in three parts; invested in capital assets, net of any related debt; restricted net assets; and unrestricted net assets. The village first uses restricted resources to finance qualifying activities.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized

VILLAGE OF FOREST

Forest, Louisiana

Notes to the Financial Statements (Continued)

when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program Revenues - Program revenues included in the Statement of Activities (Statement B) are derived directly from parties outside the village's taxpayers or citizenry. Program revenues reduce the cost of the function to be financed from the village's general revenues.

Allocation of Indirect Expenses - The village reports all direct expenses by function in the Statement of Activities (Statement B). Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense, which can be specifically identified by function, is included in the direct expenses of each function. Depreciation on buildings is assigned to the "general administration" function due to the fact that buildings serve multiple purposes. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

C. BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The financial transactions of the village are reported in individual funds in the fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Fund financial statements report detailed information about the village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

A fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Funds are classified into three categories; governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types". Governmental funds are used to account for a government's general activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on recovering the cost of providing services to the public or other agencies through service charges or user fees. Fiduciary funds are used to account for assets held for others. The village's current operations require the use of only governmental and proprietary funds. The governmental and proprietary fund types used by the village are described as follows:

Governmental Fund Type

General Fund - The General Fund, as provided by Louisiana Revised Statute 13:781, is the principal fund of the village and is used to account for the operations of the

VILLAGE OF FOREST

Forest, Louisiana

Notes to the Financial Statements (Continued)

village's office. The various fees and charges due to the village's office are accounted for in this fund. General operating expenditures are paid from this fund.

Proprietary Fund Type - Water Enterprise Fund

The Water Enterprise Fund is used to account for the operations of the village's water system. The operations are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Governmental funds and the proprietary type agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The village considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is

VILLAGE OF FOREST

Forest, Louisiana

Notes to the Financial Statements (Continued)

incurred, except for interest and principal payments on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. The governmental funds use the following practices in recording revenues and expenditures:

Revenues

Franchise taxes and intergovernmental revenues are recorded when the village is entitled to the funds.

Interest income on bank deposits is recorded when the interest has been earned and the amount is determinable.

Substantially all other revenues are recorded when they are received by the village.

Based on the above criteria, franchise taxes have been treated as susceptible to accrual.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Proprietary Fund Type - Water Enterprise Fund

The Water Enterprise Fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

E. CASH AND CASH EQUIVALENTS

Under state law, the village of court 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 December 31, 2004, the village of court has cash and cash equivalents (book balances) totaling \$140,592.

Demand deposits	\$100,612
Time deposits	<u>39,980</u>
Total	<u><u>\$140,592</u></u>

VILLAGE OF FOREST
 Forest, Louisiana
 Notes to the Financial Statements (Continued)

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 are secured as follows:

Bank Balances	<u>\$141,487</u>
Federal deposit insurance	\$139,981
Pledged securities (uncollateralized)	<u>250,069</u>
Total	<u>\$390,050</u>

Because the pledged securities are held by a custodial bank in the name of the fiscal agent bank rather than in the name of the village, they are considered uncollateralized (Category 3) under the provisions of GASB Codification C20.106; however, Louisiana Revised Statute 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 village that the fiscal agent has failed to pay deposited funds upon demand.

F. CAPITAL ASSETS

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 village maintains a threshold level of \$500 or more for capitalizing capital assets.

Capital assets are reported in the government-wide financial statements but not in the fund financial statements. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public purposes by the village, no salvage value is taken into consideration for depreciation purposes. 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>
Buildings and building improvements	20 - 40 years
Furniture and fixtures	5 - 10 years
Vehicles	5 - 15 years
Equipment	5 - 20 years

G. ANNUAL AND SICK LEAVE

The Village of Forest has not adopted vacation and sick leave policies; therefore, there is no liability for compensated absences.

VILLAGE OF FOREST
 Forest, Louisiana
 Notes to the Financial Statements (Continued)

H. RISK MANAGEMENT

The village is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; and injuries to employees. To handle such risk of loss, the fire district maintains a commercial insurance policy covering property, employee liability, and public officials liability. No claims were paid on any of the policies during the past three years which exceeded the policies' coverage amounts. There were no significant reductions in insurance coverage during the year ended December 31, 2004.

2. RECEIVABLES

The following is a summary of receivables at December 31, 2004:

	General Fund	Water Enterprise Fund	Total
Taxes:			
Franchise	\$1,236		\$1,236
Accounts		\$10,228	10,228
Total	<u>\$1,236</u>	<u>\$10,228</u>	<u>\$11,464</u>

3. CHANGES IN GENERAL FIXED ASSETS

The following presents changes in general fixed assets for the year ended December 31, 2004:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated -				
Land	\$27,500			\$27,500
Capital assets being depreciated:				
Buildings	6,553			6,553
Improvements other than buildings	711			711
Equipment	34,727			34,727
Total assets	<u>69,491</u>	NONE	NONE	<u>69,491</u>
Less accumulated depreciation	20,656	\$5,590		26,246
Net capital assets	<u>\$48,835</u>	<u>(\$5,590)</u>	<u>NONE</u>	<u>\$43,245</u>

Beginning balance was adjusted to remove those items that are below the capitalization threshold level of \$500.

VILLAGE OF FOREST

Forest, Louisiana

Notes to the Financial Statements (Continued)

A summary of proprietary fund type property, plant, and equipment at December 31, 2004, follows:

	<u>Basis</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Water system	\$637,588	(\$271,080)	\$366,508
Equipment	<u>28,692</u>	<u>(23,365)</u>	<u>5,327</u>
Total	<u>\$666,280</u>	<u>(\$294,445)</u>	<u>\$371,835</u>

4. PENSION PLAN

The employees of the village are members of the Social Security System. In addition to the employee contributions withheld at 7.65 per cent of gross salary, the village contributes an equal amount to the Social Security System. For the year ended December 31, 2004, employer contributions were \$3,235. Total salaries paid for 2004, were \$41,838. The village does not guarantee the benefits granted by the Social Security System.

5. REVENUE BONDS PAYABLE

At December 31, 2004, the village has one outstanding issue of long-term revenue bonds. In 1990 the village sold a revenue bond to the United States Department of Agriculture, Farmers Home Administration. The issue dated November 14, 1990 was for \$130,200. The issue bears interest at 6.125 per cent per annum. Principal and interest are to be repaid in annual payments of \$8,846 through November 14, 2030. All long-term debt is to be repaid solely from the income and revenues derived from the operation of the water system.

The following is a summary of revenue bonds payable transactions for the year ended December 31, 2004:

Revenue bonds payable at January 1, 2004	\$85,856
Additions	NONE
Reductions	<u>(9,685)</u>
Long-term debt at December 31, 2004	<u>\$76,171</u>

The annual requirements to amortize the revenue bonds outstanding at December 31, 2004, including interest of \$42,340, are as follows:

<u>Year</u>	
2005	\$8,846
2006	8,846
2007	8,846
2008	8,846

VILLAGE OF FOREST
 Forest, Louisiana
 Notes to the Financial Statements (Continued)

<u>Year</u>	
2009	\$8,846
2010 - 2014	44,230
2015 - 2018	<u>30,051</u>
Total	<u>\$118,511</u>

6. CONTRIBUTED CAPITAL

In 1990, the village received a grant totaling \$219,800 from the United States Department of Agriculture, Farmers Home Administration to finance the construction of its water system. The grant amount, shown as contributed capital on the balance sheet, is reduced each year by the amount of depreciation expense recognized on fixed assets constructed or acquired with the grant funds. At December 31, 2004, accumulated depreciation on these assets is \$76,930.

7. RESERVED RETAINED EARNINGS

The bond covenant with the Farmers Home Administration for the 1990 revenue bond discussed in note 4 above, requires the village to establish the following reserve accounts:

- A. A "Water Revenue Bond and Interest Sinking Fund". The village must transfer into this fund, each month, one-twelfth of the principal and interest due on the next principal and interest payment date. This fund is used to pay bond principal and interest as they become due.
- B. A "Water Reserve Fund". The village must transfer into this fund, each month, an amount equal to 5 per cent of the amount to be paid into the Water Revenue Bond and Interest Sinking Fund. Such amounts may be used only for the payment of matured bonds and interest when sufficient funds are not available in the Water Revenue Bond and Interest Sinking Fund.
- C. A "Water Depreciation and Contingency Fund". The village must transfer into this fund, each month, an amount equal to 5 per cent of the amount to be paid into the Water Revenue Bond and Interest Sinking Fund. The deposits in this fund may be used for unusual or extraordinary maintenance, repairs, replacements, and extensions and for the cost of improvements to the system. Money in this fund may also be used to pay principal and interest on bonds falling due at any time there is not sufficient funds in the other reserve funds.

At December 31, 2004 the village has \$43,733 in restricted accounts to meet reserve requirements. The following is a summary of transactions in the bond reserve accounts for the year ended December 31, 2004:

VILLAGE OF FOREST
Forest, Louisiana
Notes to the Financial Statements (Continued)

Reserve for revenue bonds payable at January 1, 2004	\$42,913
Deposits	9,344
Interest earnings	322
Debt service	<u>(8,846)</u>
Reserve for bonds payable at December 31, 2004	<u>\$43,733</u>

8. LITIGATION AND CLAIMS

The Village of Forest is not involved in any litigation at December 31, 2004, nor is it aware of any unasserted claims.

REQUIRED SUPPLEMENTARY INFORMATION

PART II

VILLAGE OF FOREST
Forest, Louisiana

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Tax, franchise	\$5,000	\$4,971	\$4,987	\$16
Occupational licenses	6,000	6,915	6,806	(109)
Use of money and property - interest earnings	15		4	4
Other revenues	5,500	5,743	5,688	(55)
Total revenues	<u>16,515</u>	<u>17,629</u>	<u>17,485</u>	<u>(144)</u>
EXPENDITURES				
General government - current:				
Personal services	3,960	5,700	5,700	
Operating services	6,650	6,586	6,187	399
Materials and supplies	1,150	1,114	1,114	
Repairs and maintenance	850	2,485	2,485	
Public safety	4,600	4,094	3,998	96
Total expenditures	<u>17,210</u>	<u>19,979</u>	<u>19,484</u>	<u>495</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(695)	(2,350)	(1,999)	(351)
FUND BALANCE AT BEGINNING OF YEAR	<u>5,500</u>	<u>4,822</u>	<u>13,990</u>	<u>(9,168)</u>
FUND BALANCE AT END OF YEAR	<u>\$4,805</u>	<u>\$2,472</u>	<u>\$11,991</u>	<u>(\$9,519)</u>

See accompanying note to budgetary comparison schedule.

VILLAGE OF FOREST
Forest, Louisiana

NOTE TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2004

A preliminary budget for the ensuing year is prepared for the General Fund by the mayor prior to December 31 of each year and is made available for public inspection at least fifteen days prior to the beginning of each fiscal year. The budget is established and controlled by the board of aldermen at the functional level of expenditure. Encumbrance accounting is not used by the village. Appropriations lapse at year end and must be reappropriated for the following year to be expended. All changes in the budget must be approved by the board of aldermen.

Formal budgetary integration is employed as a management control device during the year. Budgeted amounts included in the accompanying budgetary comparison schedule include the original adopted budget amounts and all subsequent amendments.

VILLAGE OF FOREST
Forest, Louisiana

Schedule of Water Rates
For the Year Ended December 31, 2004

<u>Classification</u>	<u>Tariff</u>	<u>Rate</u>
Residential	Monthly minimum for first 2,000 gallons	\$10.50
	Per 1,000 gallons for the next 4,000 gallons	2.80
	Per 1,000 gallons for the next 4,000 gallons	2.50
	Per 1,000 gallons for all over 10,000 gallons	1.00
Commercial	Monthly minimum for first 10,000 gallons	50.00
	Per 1,000 gallons for all over 10,000 gallons	1.70

VILLAGE OF FOREST
Forest, Louisiana

Schedule of Insurance Coverage
As of December 31, 2004

Type of Coverage	Name of Insurer	Policy Number	Amount of Coverage	Expiration Date
Commercial General Liability	Louisiana Municipal Risk Management Agency	LML-124	Aggregate - \$500,000 Each Occurrence - \$500,000 Medical Payments - \$1,000 per person - \$10,000 per accident Fire Legal Liability - \$50,000 per occurrence	5/1/07
Law Enforcement Officers Comprehensive Liability	Louisiana Municipal Risk Management Agency	LML-124	\$500,000	5/1/07
Public Officials Errors and Omissions Liability	Louisiana Municipal Risk Management Agency	LML-124	\$500,000	5/1/07
Worker's Compensation and Employers Liability	Louisiana Municipal Risk Management Agency	WC-0164	Statutory	1/1/05
Standard Fire	Farm Bureau	SF204639	\$292,000	1/22/05
Standard Fire	Farm Bureau	SF187734	\$217,200	4/30/05
Property Damage	State Farm	98-13-6529-5	\$21,300	5/30/05
Fidelity Bond	Fidelity & Deposit Co. of Maryland	30406398	\$100,000	12/1/05

VILLAGE OF FOREST
Forest, Louisiana
PROPRIETARY FUND TYPE - ENTERPRISE FUND

Proposed Operating Budget
For the Year Ending December 31, 2005
(Unaudited)

REVENUES

Water	\$125,970
Other	4,200
Interest income	2,450
Total revenues	<u>132,620</u>

EXPENSES

Insurance	7,800
Interest expense	8,700
Depreciation expense	21,500
Permits	400
Payroll taxes	3,300
Office	2,670
Repairs and maintenance	9,000
Salaries	42,000
Supplies	6,000
Administrative expense	5,520
Testing expense	3,500
Mowing	1,500
Postage	1,730
Utilities and telephone	19,000
Total expenses	<u>132,620</u>

NET INCOME

\$0

OTHER SUPPLEMENTARY INFORMATION

PART III

VILLAGE OF FOREST
Forest, Louisiana
SUPPLEMENTAL INFORMATION SCHEDULE
As of and For the Year Ended December 31, 2004

COMPENSATION PAID ALDERMEN

The schedule of compensation paid aldermen is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. In accordance with Louisiana Revised Statute 33:405, aldermen receive up to \$30.00 for each regular meeting and \$5.00 for each special meeting they attend. Compensation of aldermen is included in personal services and related benefits expenditures of the General Fund.

VILLAGE OF FOREST
Forest, Louisiana

Schedule of Compensation Paid Aldermen
For the Year Ended December 31, 2004

Dorothy Keen	\$130
Ed McKaskale	90
Mike Jones	<u>110</u>
Total	<u>\$330</u>

**REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
PART IV**

**Independent Auditor's Report Required
by *Government Auditing Standards***

The following independent auditor's report on compliance and internal control over financial reporting is presented in compliance with the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.

**Independent Auditor's Report on Compliance and
Internal Control Over Financial Reporting**

VILLAGE OF FOREST
Forest, Louisiana

I have audited the basic financial statements of the Village of Forest as of and for the year ended December 31, 2004 and have issued my report thereon dated March 28, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 the Village of Forest's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Forest's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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. 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 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

VILLAGE OF FOREST

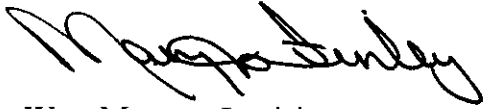
Forest, Louisiana

Independent Auditor's Report on Compliance

And Internal Control Over Financial Reporting, etc.

December 31, 2004

This report is intended solely for the information and use of the Village of Forest, management, and Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



West Monroe, Louisiana

March 28, 2005

VILLAGE OF FOREST
Forest, Louisiana

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Village of Forest.
2. No instances of noncompliance material to the financial statements of the Village of Forest were disclosed during the audit.
3. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

VILLAGE OF FOREST
Forest, Louisiana

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2004

There were no audit findings reported in the audit for the year ended December 31, 2003.