For the period of 1/20/96 through 12/20/96, the Reserve Fund monthly deposit requirement is increased from $855 per month, to a sum of $1,473 per month. For the period of 1/20/97 through 12/20/2032, a sum of $1,571 per month must be deposited monthly until $376,875 has been accumulated therein. On December 28, 2032, the funds on deposit in the Reserve Fund are to be reduced to $171,734.

As of December 31, 1996, the Rural Economic Community Development (RECD) Reserve Fund was fully funded per debt restrictions, with a balance of $58,526.

(d) The establishment and maintenance of the "Waterworks Depreciation and Contingency Fund" *(the Contingency Fund)* to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the district, by transferring from the Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year, the sum of $875 per month, all as required by the government in purchasing the bond. With the issuance on December 28, 1995, of the 1995 Water Revenue Bonds and the Series 1995-A Water Revenue Bonds, the monthly deposit requirement for the Depreciation and Contingency Fund is increased from $875 per month to $1,569 per month. The requirement to deposit $1,569 per month is effective January 20, 1996. Money in the Contingency Fund shall also be used to pay the principal of and the interest on any bond for the payment of which there is not sufficient money in the Sinking Fund or the Reserve Fund, but if so used, such money shall be replaced by the Issuer as soon as possible thereafter out of the earnings of the System after making the required payments into the respective funds and accounts herein above set out.

If, at any time, it shall be necessary to use moneys in the Reserve Fund or the Contingency Fund as above provided for the purpose of paying principal of or interest on bonds payable as to which there would otherwise be default, then the moneys so used shall be replaced from the revenues first thereafter received, not herein above required to be used for operation and maintenance of the district or for current principal, interest and reserve requirements.

Subject to the foregoing, which are cumulative, the balance of the excess funds on deposit in the Waterworks Revenue Fund may be used by the Issuer for the purpose of calling and/or paying bonds payable from the income and revenues of the district or for such other lawful corporate purposes as the governing authority of the Issuer may determine, whether or not such purposes are or are not related to the district.

All or any part of the moneys in any of the aforesaid funds and accounts described in subparagraphs (b), (c) and (d) shall, at the written request of the Issuer, be invested in direct obligations of the United States of America or other obligations permitted by Louisiana law, maturing in five (5) years or less, in which event all income derived from investments in the Sinking Fund and the Reserve Fund shall be deposited in the Waterworks Revenue Fund as income and revenues of the district and all income from investments in the Contingency Fund shall be added to the Contingency Fund. Such investments shall, to the extent at any time necessary, be liquidated and the proceeds thereof applied to the purposes for which said respective funds and accounts are herein maintained.

The Series 1995-A Water Revenue Bonds, also provide funding for the "Pumpkin Center Area" project. The Series 1995-A Bonds totaling $133,000, were issued December 28, 1995, at an annual interest rate of 5 & 1/4 percent. As of December 31, 1996, a total of $29,900, of the authorized $133,000 had been received by Tangipahoa Water District. The bond is payable over a 40-year period with the payment which falls on the anniversary date of the bond (December 28, 1996) consisting of interest only. The principal and interest payment, due December 28, 1996, was $525. Commencing on January 28, 1997, and on the 28th day of each month thereafter, to and through December 28, 2035, the payment shall consist of fully amortized monthly installments of principal and interest, estimated at $525 per month, based on receipt by Tangipahoa Water District of the total authorized bond proceeds of $133,000.

On August 13, 1993, the Tangipahoa Water District issued *Certificates of Indebtedness, Series 1993*, totaling $130,000. The Certificates were issued to acquire and construct an office building for Tangipahoa Water District and to pay the costs incurred in connection with the issuance of the bonds. The bonds are payable with principal payments of $15,000 due beginning on March 1, 1994, and due annually thereafter with a final annual installment of $70,000, due March 1, 1998. Interest installments, at an annual interest rate of 6.0%, are due semiannually on March 1, and September 1, of each year, with the initial interest installment due March 1, 1994, and the final interest installment due March 1, 1998.

The annual requirements to amortize all debt outstanding as of December 31, 1996, including interest payments of $8,151,404, are as follows:

Year Ending December 31,	1992 FmHA Revenue Bonds $3,313,000	1993 Certificates of Indebtedness $130,000	1995 Water Revenue Bonds	1995-A Water Revenue Bonds	Totals
1997	$ 205,141	$ 19,650	$ 163,706	$ -	$ 388,497
1998	205,141	72,100	163,706	8,029	448,976
1999	205,141	-	163,706	8,029	376,876
2000	205,141	-	163,706	8,029	376,876
2001	205,141	-	163,706	8,029	376,876
2002-2006	1,025,705	-	818,530	40,145	1,884,380
2007-2011	1,025,704	-	818,530	40,145	1,884,379
2012-2016	1,025,705	-	818,530	40,145	1,884,380
2017-2021	1,025,705	-	818,530	40,145	1,884,380
2022-2026	1,025,704	-	818,530	40,145	1,884,379
2027-2031	1,025,705	-	818,530	40,145	1,884,380
2032-2035	205,141	-	654,824	40,145	900,110
	$7,385,074	$91,750	$6,384,534	$313,131	$14,174,489

9. FLOW OF FUNDS, RESTRICTIONS ON USE

The Tangipahoa Water District has the following bond and reserve requirements that apply to *Rural Economic Community Development (RECD)* bonds:

That all of the income and revenues derived or to be derived by the Issuer from the operation of the district shall continue to be deposited in a separate and special bank account with the regularly designated fiscal agent bank of the Issuer, to be established with the regularly designated fiscal agent bank of the Issuer and designated as the *"Waterworks Revenue Fund,"* said Fund to be maintained and administered in the following order of priority and for the following express purposes:

(a) The payment of, first, all reasonable and necessary expenses of operating and maintaining the System.

(b) The establishment and maintenance of the "Waterworks Revenue Bond and Interest Sinking Fund", sufficient in amount to pay promptly and fully the principal of and the interest on the Bond and any pari passu bonds issued hereafter in the manner provided by this resolution by transferring from the Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year a sum equal to the principal and interest falling due on the next principal and interest payment date together with such additional proportionate sum as may be required to pay said principal and interest as the same respectively become due. The Tangipahoa Water District has decided to make these monthly payments directly to RECD, thus eliminating the need for a Sinking Fund. However, subsequent to fiscal year end, the District elected to establish a Sinking Fund to accumulate funds for the interest only payments, due December 28, 1996, of $141,245 on the 1995 Water Revenue Bond, and $6,983 on the Series 1995-A Water Revenue Bond.

(c) The establishment and maintenance of the "Waterworks Reserve Fund" *(the Reserve Fund)*, by transferring from said Waterworks Revenue Fund to the regularly designated fiscal agent bank of the Issuer, monthly in advance on or before the 20th day of each month of each year, a sum (rounded up to the nearest dollar) at least equal to five percent (5%) of the amount to be paid into the Sinking Fund provided for in paragraph (b) above, the payments into the Reserve Fund to continue until such time as there has been accumulated in the Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the bond as a Debt Service Reserve, the money in the Reserve Fund to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, the payments into the Reserve Fund shall continue, or if the said payments have ceased because of the accumulation of the maximum amount provided above, then such payments shall be resumed, until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements for any succeeding twelve (12) month period on such bonds payable from the Reserve Fund.

With the issuance on December 28, 1995, of the 1995 Water Revenue Bonds and the Series 1995-A Water Revenue Bonds, requirements for Reserve Fund deposits are revised as follows:

As of December 31, 1996, the Rural Economic Community Development (RECD) Depreciation and Contingency Fund was fully funded, per debt restrictions, with a balance of $60,343.

Bond and Reserve requirements that apply to the 1993 Certificate of Indebtedness, are as follows:

(e) For the payment of the principal of and the interest on the Certificates, there is hereby created a special fund to be known as *"Tangipahoa Water District, Tangipahoa Parish, Louisiana, Certificates of Indebtedness, Series 1993, Sinking Fund"*, said Sinking Fund to be established with the regularly designated fiscal agent bank of the Issuer. The Issuer shall deposit in said Sinking Fund at least three (3) days in advance of the date on which each payment of principal and/or interest falls due, funds fully sufficient to promptly pay the maturing principal and/or interest so falling due on such date. Said fiscal agent bank shall make available from said Sinking Fund to the Paying Agent for the Certificates herein authorized at least two (2) days in advance of the date on which each payment of principal and interest fall due, funds fully sufficient to pay promptly the principal and interest falling due on such date.

As of December 31, 1996, the balance in the 1993 Certificate of Indebtedness Sinking Fund was $15,838.

(f) In addition, there is hereby created and established a special fund to be known as the "Certificates *of Indebtedness, Series 1993, Reserve Fund"*, said Reserve Fund to be established and maintained with regularly established and maintained fiscal agent banks or banks of the Issuer. The Issuer shall deposit in the Reserve Fund, simultaneously with the delivery of the Certificates, the sum of $13,000, which money is to be retained solely for the purpose of paying the principal of and interest on the Certificates, as to which there would otherwise be default. If at any time, it shall be necessary to use moneys in the Reserve Fund for the purpose of paying principal and interest on the Certificates, as to which there would otherwise be default, then the moneys so used shall be replaced from excess revenues first thereafter received not required to pay current principal and interest requirements, it being the intention hereof that there shall, as nearly as possible, be at all times in the Reserve Fund the sum of $13,000.

As of December 31, 1996, the balance in the 1993 Certificate of Indebtedness Reserve Fund was $14,042.

10. LITIGATION AND CLAIMS

At December 31, 1996, the district is involved in several litigations. All of the claims are covered by insurance, and should constitute no material loss to the district.

11. CONSTRUCTION COMMITMENTS

During the fiscal year ending December 31, 1996, Tangipahoa Water District received preliminary approval, subject to the "Letter of Conditions" dated November 22, 1996, from the Rural Economic and Community Development Office, U.S. Department of Agriculture, for funding of an additional project for water system improvements. Final approval will provide funding for a loan not to exceed $2,900,000, and will serve an estimated 500 additional water customers.

Bids were also received by the Tangipahoa Parish Council, subsequent to fiscal year end, for a water system improvements project funded by a $600,000 Louisiana Community Development Block Grant (LCDBG). After completion and close-out of this project, responsibility for the operation and maintenance of these water system improvements will be transferred to Tangipahoa Water District.

SUPPLEMENTARY INFORMATION

Schedule 1

Cash/ Accrued Revenue at December 31, 1996	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/ Accrued Revenue at December 31, 1996
$ 3,193,194	$ -	$ 29,682	$ 3,163,512
$ 3,193,194	$ -	$ 29,682	$ 3,163,512
$ -	$ 12,900	$ 12,900	$ -
-	1,037,000	1,037,000	-
$ -	$ 1,049,900	$ 1,049,900	$ -
$ 3,193,194	$ 1,049,900	$ 1,079,582	$ 3,163,512

Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana

Schedule 3

Supplemental Information Schedule
As of and for the Year Ended December 31, 1996

SCHEDULE OF INSURANCE

Insurance Company	Coverage	Amount	Period
Tudor Insurance Company	Liability:		01/01/96 -
Policy Number POL0061714	Directors & Officers	$1,000,000	01/01/97
Commercial Union Insurance Company	Business Automobile:		01/01/96 -
Policy Number MEK490139	Liability	$500,000	01/01/97
	Uninsured Motorist	$500,000	
	Non-owned and Hired Auto	$500,000	
	Comprehensive Deductible	$100	
	Collision Deductible	$250	
American Central Insurance Company	Bodily Injury:		01/01/96 -
Policy Number MB (97) H13 02 39	Each Accident	$500,000	01/01/97
	Disease - Each Employee	$500,000	
	Disease - Policy Limit	$500,000	
American Central Insurance Company	Commercial Package Policy:		01/01/96 -
Policy Number MEK490078	General Liability:		01/01/97
	General Aggregate	$2,000,000	
	Products & Completed Operations	$1,000,000	
	Each Occurrence	$500,000	
	Personal Injury & Advertising	$500,000	
	Employee Dishonesty Blanket	$250,000	
	Fire Damage Limit	$50,000	
	Medical Payments	$5,000	
	Property-Building & Contents	$1,583,600	
Fidelity & Deposit Company of Maryland	Employee Dishonesty Coverage:		01/01/96 -
Policy Number CCP 0025756	President	$377,000	01/01/97
	Treasurer	$377,000	
	Secretary	$25,000	
	Manager	$25,000	
	Foreman	$25,000	
	Clerk	$25,000	
	Clerk	$25,000	
	Clerk	$25,000	
	Clerk	$25,000	
American Central Insurance Company	Commercial Umbrella:		01/01/96 -
Policy Number MEDZ50449	General Aggregate Limit (Other	$1,000,000	01/01/97
	Than Products - Completed Operations		
	Bodily Injury By Disease And Automobile)		
	Products - Completed Operations		
	Aggregate Limit	$1,000,000	
	Bodily Injury by disease		
	aggregate limit	$1,000,000	
	Each Occurrence Limit	$1,000,000	

The accompanying notes are an integral part of these statements.

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.

Because the Tangipahoa Parish Council appoints the governing board, has the ability to significantly influence operations and the scope of public service is within the parish council, the district was determined to be a component unit of the Tangipahoa Parish Council, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the district and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the governmental reporting entity.

C. FUND ACCOUNTING

The Tangipahoa Water District is organized and operated on a fund basis whereby a self-balancing set of accounts *(Enterprise Fund)* is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Interest on revenue bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district 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 their principal offices in Louisiana.

F. INVENTORIES

Inventories consist of materials and supplies and are recorded as an expense when consumed. Inventories are valued at cost using the first-in, first-out method.

G. PREPAID ITEMS

Prepaid items consist of prepaid insurance premiums.

Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana

Schedule 4

SCHEDULE OF WATER RATES
As of and for the Year Ended December 31, 1996

LISTING OF CUSTOMERS BY TYPE SERVICE

TYPE SERVICE	NUMBER OF CUSTOMERS
RESIDENTIAL	4,983
COMMERCIAL	253
APARTMENTS	145
TOTAL CUSTOMERS	5,381

SCHEDULE OF WATER RATES

TYPE SERVICE	BASE RATE	COST PER 1,000 GALLONS ABOVE BASE RATE
RESIDENTIAL METERED	$8.00 FIRST 2,500 GALLONS;	$1.25 OVER 2,500 GALLONS
RESIDENTIAL FLAT RATE	$12.00 PER RESIDENCE	-
COMMERCIAL:		
1" METER	$20.00 FIRST 10,000 GALLONS;	$1.25 OVER FIRST 10,000 GAL
1 & 1/2" METER	$40.00 FIRST 20,000 GALLONS;	$1.25 OVER FIRST 20,000 GAL
2" METER	$60.00 FIRST 30,000 GALLONS;	$1.25 OVER FIRST 30,000 GAL
3" METER	$80.00 FIRST 40,000 GALLONS;	$1.25 OVER FIRST 40,000 GAL
4" METER	$100.00 FIRST 50,000 GALLONS;	$1.25 OVER FIRST 50,000 GAL
APARTMENTS:		
METERED	$7.50 PER UNIT FIRST 2,500 GAL	$1.25 OVER FIRST 2,500 GAL
UNMETERED	$12.00 PER APARTMENT	
SCHOOLS	TO BE RATED AS COMMERCIAL.	

The accompanying notes are an integral part of these statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

The management of Tangipahoa Water District, Louisiana, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the component unit financial statements of the Tangipahoa Water District, Louisiana, for the years ended December 31, 1996 and 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

Tangipahoa Parish Council
Natalbany, Louisiana

Schedule 2

Supplemental Information Schedule
For the Year Ended December 31, 1996

COMPENSATION PAID BOARD MEMBERS

	Amount
Dickie Davidge	$ 2,400
Gary Bankston	1,000
Charlie Harrison	2,700
Dr. J. L. Garrett	2,200
Joe Catha	1,700
Burlon Graham	1,900
Larry Byers	1,400
John Jackson	700
Larry McDaniel	700
Billy Story	400
Brent Thompson	2,100
	$ 17,200

The accompanying notes are an integral part of these statements.

Tangipahoa Water District
Tangipahoa Parish Council
Comparative Statement of Cash Flows - Proprietary Fund Type
For the Years Ended December 31, 1996 and 1995

	Enterprise Fund	
	1996	1995
Cash Flows From Operating Activities		
Operating Income	$ 258,638	$ 308,837
Adjustments to Reconcile Net Operating Income to Cash Provided by Operating Activities:		
Depreciation	248,078	247,964
Bond Issue Cost Amortization	1,416	1,416
Bad Debt Expense	(12,324)	(4,924)
Settlement of Claims	-	19,157
(Increase) Decrease in Accounts Receivable	14,318	(24,054)
(Increase) Decrease in Accrued Billings	(30,117)	(5,627)
(Increase) Decrease in Due From Other Governments	(14)	(80)
(Increase) Decrease in Inventory	(6,281)	(4,235)
(Increase) Decrease in Customer Deposits Receivable	-	4,230
(Increase) Decrease in Prepaid Insurance	(2,232)	(37,857)
Increase (Decrease) in Accounts Payable	2,622	(16,633)
Increase (Decrease) in Construction Accounts Payable	(128,920)	128,920
Increase (Decrease) in Sales Tax Payable	191	447
Increase (Decrease) in Accrued Wages	12,088	1,521
Increase (Decrease) in Payroll Taxes Payable	535	410
Increase (Decrease) in Payable to Engineer	-	(26,136)
Increase (Decrease) in Due To Other Governments	(168)	2,727
Increase (Decrease) in Retainage Payable	(125,756)	135,756
Increase (Decrease) in Interest Payable	3,327	(369)
Increase (Decrease) in Customer Deposits Payable	25,565	2,888
Increase (Decrease) in Liability for Connection Fees	(24,350)	24,350
Net Cash Provided (Used) by Operating Activities	236,616	758,708
Cash Flows From Noncapital Financing Activities		
Recovery of Bad Debts	369	965
Net Cash Provided (Used) by Noncapital Financing Activities	369	965
Cash Flows From Capital and Related Financing Activities		
Proceeds From RECD Bond	949,900	1,729,000
Proceeds From Sale of Fixed Assets	46,049	-
Proceeds From Contributions	23,400	65,627
Payment For Capital Acquisitions	(1,087,227)	(2,243,818)
Principal Payments - RECD Bond	(34,009)	(28,663)
Principal Payments - Certificate of Indebtedness	(15,000)	(15,000)
Interest Payments	(184,396)	(182,559)
Net Cash Provided (Used) by Capital and Related Financing Activities	(301,283)	(675,413)

(Continued)
The accompanying notes are an integral part of these statements.

9843

TANGIPAHOA WATER DISTRICT
TANGIPAHOA PARISH COUNCIL

ANNUAL FINANCIAL REPORT
DECEMBER 31, 1996

Tangipahoa Water District
Tangipahoa Parish Council
Annual Financial Report
December 31, 1996

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the accompanying component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995. These component unit financial statements are the responsibility of the Tangipahoa Water District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Tangipahoa Water District, Louisiana, as of December 31, 1996 and 1995, and the results of its operations and the cash flows of its proprietary fund type for the periods then ended in conformity with generally accepted accounting principles.

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

Bruce Harrell & Co.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

February 22, 1997

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INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997. These component unit financial statements are the responsibility of the Tangipahoa Water District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit 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.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements of the Tangipahoa Water District, Louisiana, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Bruce Harrell & Co.

Bruce Harrell and Company, CPAs
A Professional Accounting Corporation

February 22, 1997

Tangipahoa Water District
Tangipahoa Parish Council
Comparative Balance Sheet - Proprietary Fund Type
December 31, 1996 and 1995

	Enterprise Fund	
	1996	1995
Assets		
Current Assets:		
Cash	$ 35,161	$ 54,441
Accounts Receivable (Net)	103,094	117,412
Accrued Billings	62,643	32,526
Due From Other Governments	746	732
Inventory	49,452	43,171
Prepaid Insurance	40,089	37,857
Total Current Assets	291,185	286,139
Restricted Assets:		
Cash - Customer Deposits	232,331	212,229
Cash - Capital Improvements	128,823	255,870
Cash - RECD Bond Depreciation and Contingency	60,343	40,459
Cash - RECD Bond Reserve	58,526	39,820
Cash - Certificate of Indebtedness Sinking	15,838	13,857
Cash - Certificate of Indebtedness Reserve	14,042	13,750
Cash - Pumpkin Center Construction	24,651	2,498
Cash - Pumpkin Center Escrow	11,639	11,793
Cash - Pumpkin Center	16,093	-
Cash - Robertson Road Escrow	3,051	3,433
Cash - Ponchatoula East Escrow	21,919	21,561
Total Restricted Assets	587,256	615,270
Property, Plant, and Equipment:		
Land	111,607	111,607
Plant and Equipment	10,823,584	7,489,904
Construction in Progress	36,775	2,308,218
Total Property, Plant, and Equipment	10,971,966	9,909,729
Less: Accumulated Depreciation	(1,810,319)	(1,583,278)
Net Property, Plant, and Equipment	9,161,647	8,326,451
Other Assets:		
Utility Deposits	705	705
Bond Issue Cost	51,106	52,522
Total Other Assets	51,811	53,227
Total Assets	$ 10,091,899	$ 9,281,087

(Continued)
The accompanying notes are an integral part of these statements.

Tangipahoa Water District
Tangipahoa Parish Council
Comparative Balance Sheet - Proprietary Fund Type
December 31, 1996 and 1995

	Enterprise Fund	
Liabilities and Fund Equity	1996	1995
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	$ 39,494	$ 36,872
Construction Accounts Payable	-	128,920
Sales Tax Payable	3,656	3,465
Accrued Wages	16,963	4,875
Payroll Tax Payable	1,926	1,392
Due to Other Governments	35,022	35,190
Retainage Payable - Pumpkin Center	10,000	135,756
Total Current Liabilities (Payable From Current Assets)	107,061	346,470
Current Liabilities (Payable From Restricted Assets):		
Accrued Interest Payable - RECD Bond	12,996	7,669
Accrued Interest Payable - Certificate of Indebtedness	-	2,000
Customer Deposits Payable	297,185	271,620
Current Portion of RECD Bond	55,876	26,607
Current Portion of Certificate of Indebtedness	15,000	15,000
Liability for Connection Fees	-	24,350
Total Current Liabilities (Payable From Restricted Assets)	381,057	347,246
Long-Term Liabilities:		
Bonds Payable - Original System	3,131,567	3,166,587
Bonds Payable - Pumpkin Center #1	22,182	10,000
Bonds Payable - Pumpkin Center #2	2,728,460	1,819,000
Certificate of Indebtedness	70,000	85,000
Total Long-Term Liabilities	5,952,209	5,080,587
Total Liabilities	6,440,327	5,774,303
Fund Equity:		
Paid-In Capital	8,708	8,708
Contributed Capital	3,068,176	3,044,776
Less: Accumulated Amortization	(659,799)	(575,387)
Net Paid-In and Contributed Capital	2,417,085	2,478,097
Retained Earnings:		
Reserved for Capital Improvements	128,824	255,808
Reserved for RECD Bond Reserve	58,526	39,820
Reserved for RECD Bond Depreciation and Contingency	60,343	40,459
Reserved for Certificate of Indebtedness	15,838	13,750
Unreserved Retained Earnings	970,956	678,820
Total Retained Earnings	1,234,487	1,028,657
Total Fund Equity	3,651,572	3,506,754
Total Liabilities and Fund Equity	$ 10,091,899	$ 9,281,057

(Concluded)
The accompanying notes are an integral part of these statements.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 1996, the district has $625,366 in deposits (collected bank balances). These deposits are secured from risk by $100,000 of federal deposit insurance and $525,366 of securities held by the custodial bank in the name of the fiscal agent bank *(GASB Category 3)*.

Even though the pledged securities are considered uncollateralized *(Category 3)* under the provisions of *GASB Statement 3, 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 district that the fiscal agent has failed to pay deposited funds upon demand.

3. RECEIVABLES

The following is a summary of receivables at December 31, 1996:

Current	$ 83,144
31 - 60	19,217
61 - 90	2,933
Over 90	-
Total	105,294
Less: Allowance for Uncollectible Accounts	(2,200)
Net Accounts Receivable	$ 103,094

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. The Board of Commissioners of Tangipahoa Water District established a monthly allowance for uncollectible accounts, based on .75% of gross water sales, the amount based on past experience in customer collections. Periodically, the Board reviews the aging of receivables and determines the actual amounts uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility. For the fiscal year ending December 31, 1996, the district had recorded $12,324 in bad debt expense.

Estimated unbilled revenues are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. Accrued billings at December 31, 1996, totaled $62,643.

4. RESTRICTED ASSETS

At December 31, 1996, the district had restricted assets totaling $587,256 as follows:

Tangipahoa Water District
Proprietary Fund Type
Tangipahoa Parish Council
Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings (Budget and Actual)
For the Year Ended December 31, 1996
And Actual for the Year Ended December 31, 1995

	Enterprise Fund			
	Budget 1996	Actual 1996	Variance Favorable (Unfavorable)	Actual 1995
Depreciation	$ 279,000	$ 248,078	$ 30,922	$ 247,964
Office Journal	1,800	3,538	(1,738)	1,921
Chlorination	18,000	19,808	(1,808)	-
Amortization of Bond Issue Costs	1,368	1,416	(48)	1,416
Miscellaneous	300	867	(567)	292
Total Operating Expenses	923,268	1,054,016	(130,748)	844,740
Operating Income (Loss)	279,782	258,638	(21,144)	308,837
Nonoperating Revenues (Expenses)				
Interest Income	18,700	17,004	(1,696)	18,620
Recovery of Bad Debts	1,000	369	(631)	966
Settlement of Claims	-	-	-	19,157
Gain on Sale of Fixed Assets	-	42,126	42,126	-
Interest Expense	(265,000)	(184,396)	80,604	(182,559)
Bad Debt Expense	(7,100)	(12,324)	(5,224)	(4,924)
Total Nonoperating Revenues (Expenses)	(252,400)	(137,221)	115,179	(148,740)
Net Income (Loss)	$ 27,382	121,417	$ 94,035	160,097
Unreserved Retained Earnings, Beginning		678,820		583,153
Amortization of Contributed Capital		84,412		84,412
(Increase) Decrease in Reserved Retained Earnings:				
Reserved for Bond Payments		(18,706)		(11,069)
Reserved for Bond Depreciation		(19,884)		(11,321)
Reserved for Certificate of Indebtedness		(2,088)		(323)
Reserved for Capital Improvements		126,985		(126,129)
Unreserved Retained Earnings, Ending		$ 970,956		$ 678,820

(Concluded)
The accompanying notes are an integral part of these statements.

employee contributions, up to 5% of gross wages, for the fiscal year ending December 31, 1996. The contribution by the employer will be re-established by the Board of Commissioners before the beginning of each fiscal year. Under the terms of the State of Louisiana Public Employees Deferred Compensation Plan, an employee may contribute up to a maximum of 25% of adjusted gross income, not to exceed $7,500 per calendar year. A special "catch-up" provision may be used to save up to $15,000 per year for the three years prior to retirement.

As reported by the State of Louisiana Deferred Compensation Program, for fiscal year ending December 31, 1996, the aggregate account balance of employee's of Tangipahoa Water District participating in the plan was $35,003, with $14,128 in total employee contributions in 1996.

8. LONG-TERM LIABILITIES

The following is a summary of the long-term liability transactions during the year:

	1992 Revenue Bonds	1993 Certificate of Indebtedness	1995 Water Revenue Bonds	1995 Series 1995-A Revenue Bonds	Total
Long-Term Liabilities Payable at Beginning of Year	$ 3,193,194	$ 100,000	$ 1,819,000	$ 10,000	$ 5,122,194
Additions	-	-	937,000	12,900	949,900
Deletions	(29,682)	(15,000)	(4,317)	(10)	(49,009)
Long-Term Liabilities Payable at End of Year	$ 3,163,512	$ 85,000	$ 2,751,683	$ 22,890	$ 6,023,085

A detailed listing of general long-term liabilities follows:

As of December 31, 1996, the Tangipahoa Water District has three Rural Economic Community Development (RECD) Revenue Bonds. The original bond was issued on December 28, 1992, at $3,313,000, at an annual interest rate of 5.5% per annum. These bonds are payable in monthly, fully amortized payments of principal and interest of $17,095, with the payments falling due on the 28th day of each month beginning January 28, 1993, and ending December 28, 2032.

The two remaining water revenue bonds, consisting of the 1995 Water Revenue Bonds, and the Series 1995-A Bonds, provide funding for construction improvements for the RECD project entitled "Pumpkin Center Area" project. As of December 31, 1996, the project is in the construction phase, although the bonds were issued December 31, 1996. The balance of the bond issue, up to the authorized bond issue amount, will be provided directly from the RECD office, based on construction progress invoices. The 1995 Water Revenue Bonds totaling $2,756,000, were issued December 28, 1995, at an annual interest rate of 5 & 1/8 per cent. As of December 31, 1996, all of the authorized $2,756,000 had been received by Tangipahoa Water District. The bond is payable over a 40-year period with the payment which falls on the anniversary date of the bond (December 28, 1996) consisting of principal and interest of $120,710. Commencing on January 28, 1997, and on the 28th day of each month thereafter, to and through December 28, 2035, the payment shall consist of fully amortized monthly installments of principal and interest, estimated at $13,642 per month, based on receipt by Tangipahoa Water District of the total authorized bond proceeds of $2,756,000.

Tangipahoa Water District
Tangipahoa Parish Council
Comparative Statement of Cash Flows - Proprietary Fund Type
For the Years Ended December 31, 1996 and 1995

	Enterprise Fund	
	1996	1995
Cash Flows From Investing Activities		
Interest Income	$ 17,004	$ 18,620
Net Cash Provided (Used) by Investing Activities	17,004	18,620
Net Cash Increase (Decrease)	(47,294)	102,880
Cash, Beginning	669,711	566,831
Cash, Ending	$ 622,417	$ 669,711

(Concluded)
The accompanying notes are an integral part of these statements.

TANGIPAHOA WATER DISTRICT
TANGIPAHOA PARISH COUNCIL
AMITE, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 1996

INTRODUCTION

On August 5, 1992, the Tangipahoa Parish Council voted to create a parish wide water district effective November 16, 1992, in accordance with *Louisiana Revised Statute 33:3811*, thus creating the Tangipahoa Water District. The purpose of the Tangipahoa Water District was to consolidate Second Ward Water District, Fourth Ward Water District and Water Works District Number 2, which were active water districts. The Tangipahoa Water District is governed by a board of commissioners consisting of seven members. The board is appointed by the parish council and paid according to the number of meetings attended. The Tangipahoa Water District encompasses all non-incorporated portions, with a few exclusions for some previously franchised areas of Tangipahoa Parish.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Tangipahoa Water District 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 governing authority of the parish, for reporting purposes, the Tangipahoa Parish Council is the financial reporting entity for Tangipahoa Parish. The financial reporting entity consists of (a) the primary government (parish council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which 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.

Government Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Tangipahoa Parish Council 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 parish council 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 parish council.

2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the parish council.

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CERTIFIED PUBLIC ACCOUNTANTS
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This report is intended for the information of management, the Legislative Auditor, the Rural Economic Community Development and the Federal Cognizant Agency. However, this report is a matter of public record and its distribution is not limited.

Bruce Harrell & Co.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

February 22, 1997

H. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants.

I. FIXED ASSETS

Fixed assets of the district are included on the balance sheet of the fund. Interest costs incurred during construction are capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

J. COMPENSATED ABSENCES

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

Employees earn one week of paid vacation after working full-time for one year, and two weeks of paid vacation after working full-time for three years. Employees are not allowed to accumulate vacation leave.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. FUND EQUITY

Contributed Capital

Grants, entitlements, or shared revenues that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions.

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use.

2. CASH AND CASH EQUIVALENTS

At December 31, 1996, the district had cash and cash equivalents (book balances) totaling $622,417, as follows:

Interest-Bearing Demand Deposits	$622,417
Money Market Accounts	-
Time Deposits	-
Total	$622,417

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Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Page 2

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could affect the district's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

It was noted that the Tangipahoa Water District has a lack of segregation of duties in its system of internal controls. This deficiency in the internal control structure is caused by the small number of personnel that handle the operations of the district.

A material weakness is a reportable condition in which the design and operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the Tangipahoa Water District, Louisiana, in a separate letter dated February 22, 1997.

This report is intended for the information of management, the Legislative Auditor, the Rural Economic Community Development and the Federal Cognizant Agency. However, this report is a matter of public record and its distribution is not limited.

Bruce Harrell & Co.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

February 22, 1997

Cash-Customer Deposits	$ 232,331
Cash-RECD Depreciation and Contingency Fund	60,343
Cash-RECD Bond Reserve Fund	58,526
Cash-Certificate of Indebtedness Sinking Fund	15,838
Cash-Certificate of Indebtedness Reserve Fund	14,042
Cash-Escrow for Connection Fees	52,702
Cash-Construction Fund	128,823
Cash-Construction RECD Project	24,651
Total	$ 587,256

Cash in the first Construction Fund, totaling $128,823, is restricted by the Board of Directors of Tangipahoa Water District, for future construction projects. The second Construction Fund, totaling $24,651, is restricted for construction of water system expansion and improvements, under a Rural Economic Community Development (RECD) funded project.

5. FIXED ASSETS

A summary of fixed assets at December 31, 1996, follows:

	Cost	Accumulated Depreciation	Net
Land	$ 111,607	$ -	$ 111,607
Building	204,500	20,866	183,634
Equipment	325,129	245,517	79,612
Furniture and Fixtures	9,361	6,375	2,986
Water Distribution System	10,284,594	1,537,561	8,747,033
Construction in Progress	36,775	-	36,775
Total	$ 10,971,966	$ 1,810,319	$ 9,161,647

Equipment, furniture and fixtures are depreciated using useful lives of 5 to 10 years, and the water distribution system uses a useful life of 30 to 50 years. All assets are depreciated under the straight-line method. Depreciation expense for the fiscal year ending December 31, 1996 totaled $248,078.

6. COMPENSATED ABSENCES

At December 31, 1996, employees of the district had no material accumulated or vested leave benefits.

7. RETIREMENT PROGRAM

On January 27, 1994, the Board of Commissioners of the Tangipahoa Water District, adopted the *Louisiana Public Employees Deferred Compensation Plan*, with the provision that Tangipahoa Water District, the employer, will match

Tangipahoa Water District
Tangipahoa Parish Council
Proprietary Fund Type
Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings (Budget and Actual)
For the Year Ended December 31, 1996
And Actual for the Year Ended December 31, 1995

	Enterprise Fund			
	Budget 1996	Actual 1996	Variance Favorable (Unfavorable)	Actual 1995
Operating Revenues				
Water Sales	$ 1,095,000	$ 1,172,175	$ 77,175	$ 1,049,684
Penalties	26,000	28,885	2,885	23,974
Service Connection and Installation Fees	60,000	92,019	32,019	58,877
Reconnect Charges	13,000	7,375	(5,625)	12,000
Miscellaneous	9,050	12,200	3,150	9,042
Total Operating Revenues	1,203,050	1,312,654	109,604	1,153,577
Operating Expenses				
Electricity Purchased	120,500	80,083	40,417	82,337
Water Purchased	-	86,058	(86,058)	38,724
Wages and Salaries	228,000	300,571	(72,571)	219,268
Director's Fees	18,000	17,200	800	18,200
Minute Clerk Fees	2,000	2,575	(575)	1,375
Contract Labor	1,000	8,094	(7,094)	361
Payroll Taxes	20,000	25,755	(5,755)	17,396
Water Well Maintenance and Supplies	5,500	34,512	(29,012)	6,872
Repairs, Maintenance and Supplies	25,000	21,846	3,154	29,226
Equipment Rental	1,000	2,340	(1,340)	737
Equipment Maintenence	20,000	17,177	2,823	18,299
Operating Costs - Trucks	35,000	37,388	(2,388)	30,060
Water Well Rentals	-	-	-	7,500
Retirement Contributions	8,000	6,793	1,207	7,104
Legal Fees	10,500	8,404	2,096	5,643
Professional Fees	200	9,940	(9,740)	200
Accounting Fees	5,100	6,890	(1,790)	1,259
Annual Audit Fee	6,500	6,500	-	6,500
Postage and Box Rent	15,000	13,867	1,133	13,995
Employee Uniforms	4,000	4,464	(464)	3,071
Dues and Subscriptions	500	205	295	200
Utilities	7,500	5,418	2,082	6,067
Telephone	7,000	8,187	(1,187)	6,808
Office Expense	13,000	11,376	1,624	11,314
Computer Expense	3,000	4,301	(1,301)	555
Educational Expense	1,500	1,753	(253)	1,082
Bank Charges	-	-	-	32
Insurance	65,000	58,612	6,388	58,962

(Continued)
The accompanying notes are an integral part of these statements.

at December 31, 1995, to a write-off of $12,324 for the fiscal year ending December 31, 1996. For the past due accounts reviewed during the financial audit, we reviewed delinquent accounts over a three-month period. Of the 80 accounts reviewed in the initial month, we noted that two months later 52 of the accounts were still on the disconnect list, with 42 showing an increase over 10% in account balance (above the penalty amount on the balance). We realize that some of the accounts are possibly accounts that no longer have service, but are still on the utility system billing records. However, the amount of accounts to be disconnected increased significantly.

B. Current Year Audit Recommendations:

In conjunction with the financial audit, and at the request of the Board of Commissioners of Tangipahoa Water District, we designed a series of Management Reports for the utility billing system, and programming changes were implemented to produce these reports. These reports assist in review of the overall billing process to determine that accounts are being billed at correct amounts, revenue is being maximized, and variations in the billing process are identified in a timely manner. Two series of reports are available, allowing monthly review of the billing process, and periodic review of the overall management of billing.

We recommended in the prior fiscal year that management of the district run management reports and report directly to the Board of Commissioners on no less than a monthly basis the progress made in correcting rate code classifications and replacing meters . After review with the manager in the current fiscal year, we agree that the number of reports needs to be limited, and goals set for reviewing customer accounts. We recommend that review initially be limited to the following reports

1) Meter Reading Variance Report - shows accounts with no change in meter readings, decrease in readings, or zero usage.
2) Flat Rate Usage Report - displays information on accounts coded at a flat rate to determine if usage is reported and the account coding should be corrected.

We also recommend that the district increase its efforts to disconnect past due accounts on a timely basis.

C. Management Response to Audit Recommendations:

We have reviewed these two management reports, will set goals for review and replacement of meters, and will report to the Board of Commissioners, as required. In relation to disconnect of accounts, we have increased the amount of time allotted for disconnects, are working the disconnects every other day, and have assigned specific personnel to disconnect past due accounts on a timely basis.

UTILITY BILLING SYSTEM - METER DEPOSIT RECORDS

A. Weaknesses in Internal Controls:

In the prior fiscal year, we noted in the review of records supporting meter deposits paid and refunded, that is was necessary for district personnel to spend considerable time researching source records to determine the status of accounts. Although meter deposit payments are input in the utility billing program, this part of the program does not provide an adequate audit trail to input and update records for meter deposits paid to customers. Also, for customers disconnected from the system, the district had also expressed interest in maintaining a data base of clients for follow-up to determine that customers do not illegally reconnect to the

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997. We have also audited the compliance of the Tangipahoa Water District, Louisiana, with requirements applicable to major federal financial assistance programs and have issued our report thereon dated February 22, 1997.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement and whether the Tangipahoa Water District, Louisiana, complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit for the year ended December 31, 1996, we considered the internal control structure of Tangipahoa Water District, Louisiana, in order to determine our auditing procedures for the purpose of expressing our opinions on the component unit financial statements of Tangipahoa Water District, Louisiana, and on the compliance of the Tangipahoa Water District, Louisiana, with requirements applicable to the major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to the federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the component unit financial statements in a separate report dated February 22, 1997.

The management of the Tangipahoa Water District, Louisiana, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

BRUCE HARRELL & CO.
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A Professional Accounting Corporation

This report is intended for the information of management, the Legislative Auditor, the Rural Economic Community Development and the Federal Cognizant Agency. However, this report is a matter of public record and its distribution is not limited.

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Bruce Harrell & Company, CPAs
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February 22, 1997

C. Management Response to Audit Recommendations:
Management is currently addressing this problem and will make the necessary work assignments for management of inventory. The district manager is familiarizing himself with the reporting functions of the inventory control software and will manage inventory on a current basis. As the system becomes fully operational, and in the initial stages, the manager plans to conduct inventory on a monthly basis.

ORGANIZATIONAL CONTROLS

A. Weaknesses in Internal Controls:

During the fiscal year, it was noted that meters were purchased from the meter deposit account in accordance with statutory authority for use of the meter deposit account. However, the board of commissioners noted that it was the established policy of the board to leave the meter deposit funds intact.

B. Current Year Audit Recommendations:

It is recommended that the board of commissioners either approve the expenditure of meter deposit funds to purchase meters, or replace the funds expended in the meter deposit account.

C. Management Response to Audit Recommendations:

The board of commissioners will review this matter and take appropriate action.

COMPUTER EQUIPMENT AND CONTROLS

A. Weaknesses in Internal Controls:

For the prior fiscal year, we noted numerous deficiencies in the operation of the network system, and we observed that most of the PCs currently attached to the network are approaching functional obsolescence. All but one of the PCs is incapable of running the Windows environment; and even the one PC capable of running Windows does not have sufficient memory to *effectively* run Windows plus any applications thereunder. In addition to processor and memory shortcomings, some of the PCs don't have modern 3.5-inch floppy drives or even hard drives. While not yet at the critical stage for operating the programs currently on the system, this condition precludes the possibility of migrating to the current (and future) generation(s) of software available for utility billing and management, work-order processing, accounting, analysis, word processing, and electronic mail functions.

In addition to the above weaknesses, we noted in the current fiscal year that the utility billing system, also well-written, has not been up-dated from a "DOS-Based" program. Being a "DOS-Based" program means that the utility program can use only a limited amount of memory (1 megabyte) to process utility billing transactions and as such is limited in how fast the program can operate, and in overall program development. The difference is most often seen at the management level. Often management or the board of directors request specific information needed to make good decisions--for example, the board may want to know the average usage of customers over a three-month period, for a specific subdivision. The answer is usually to spend a lot of time compiling the information, or to request a program change. Programs designed to operate under current technology (32-bit architecture) such as Windows 95 or Windows NT, can have the capability to process transactions faster and to produce a variety of management reports.

water system. For the current fiscal year, audit procedures applied indicated that the increase in meter deposits was reasonable. However, a printout of meter deposits printed from the utility billing program for the current fiscal year, listed total meter deposits significantly below the recorded meter deposits payable.

B. Current Year Audit Recommendations:

Maintenance of meter deposit records involves initial input of the customer payment and customer information, and recording refunds to customers. This is a simple data base application. We recommend that the district purchase a data base program, structure the data base, and assign responsibility for accounting for and reporting transactions for meter deposits. A separate data base could also be used to maintain records on disconnected customers with account balances. As the data is input, the records recorded on the utility billing program should be checked to source data for accuracy.

C. Management Response to Audit Recommendations:

We will implement the changes necessary to improve accounting for meter deposits, and to provide follow-up on customers disconnected from the system.

UTILITY BILLING SYSTEM - RATE STRUCTURE

A. Weaknesses in Internal Controls:

Although for the fiscal year ending December 31, 1996, the district recorded a positive net income of $121,417, the district is in a period of expansion. The district is in the process of completing a major expansion project and implementing new projects. At a time of increased growth for the district, it is essential that the board of commissioners review the levels of revenues and expenses on a monthly basis and revise, if necessary, the rate structure to adequately cover the operating expenses and debt obligations of the district. As part of this review, it is essential that management provide periodic reports on the average usage per type customer, to assist in determining the adequacy of the rate structure.

B. Current Year Audit Recommendations:

Consideration should be given to enact a rate ordinance that allows the board of commissioners to adopt a rate structure consistent with the budgeted income and expenses adopted for the district. Detailed review by the board of commissioners would insure that the approved expenses for the system are only those expenses essential to efficient operation of the utility department, thereby insuring that any rate increase is reasonable based on the goals and direction specified by the board of commissioners. Also, data should be developed on a period basis, presenting average usages and rates per type customer.

C. Management Response to Audit Recommendations:

We will review sample ordinances developed for other districts and governmental entities and determine if adoption of a similar ordinance would be beneficial for the district. Also, we will conduct reviews on a periodic basis to compile statistics on average usage per type customer.

B. Current Year Audit Recommendations:

We recommend that the district review its current computer system, and update computer facilities and programs, as funds are available.

C. Management Response to Audit Recommendations:

Management agrees that the computer system and utility billing program needs to be up-dated. We will review this matter when funds are available.

It has been our pleasure to perform this financial audit for you. We will be glad to meet with you in trying to provide assistance in implementing the above recommendations.

Respectfully submitted,

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MANAGEMENT LETTER

February 22, 1997

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have examined the component unit financial statements of Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996, and 1995. In planning and performing our audit, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure. However, we noted certain weaknesses in the internal control structure, that, if corrected, could improve the ability of management of Tangipahoa Water District to record, process, summarize, and report financial data consistent with the assertions of management. The format below lists "Weakness in Internal Controls", and "Current Year Audit Recommendations", followed by "Management Response to Audit Recommendations".

UTILITY BILLING SYSTEM - MANAGEMENT OF BILLING PROCESS

A. Weaknesses in Internal Controls:

During the financial audit for the prior fiscal year, both audit personnel and staff of Tangipahoa Water District reviewed and tested client history reports to determine if billings were correctly coded for type service, billings were calculated correctly, and if the usages reported were consistent and reasonable based on past history for the customer. In this analysis, errors were not noted in the calculation of bills based on the account rate codes input into the utility billing software. However, it was noted that numerous accounts were being billed for minimum usage (possibly "stop meters") and accounts were often still billed for flat rate usage. Maximization of billing revenues requires continual review of the billing process to determine that all accounts are metered, coded correctly, and any changes in account classifications are reported to management in a timely manner.

For the fiscal year ending December 31, 1996, we also noted that 56 residential accounts were still listed at a flat rate. This represents a significant decrease in unmetered residential accounts from the prior year, but still represents a loss in revenue from the average rate for metered accounts. Also, we noted in the review of the "Meter Reading Variance Report" that numerous accounts were being reported at unusually low usages. Unusually low usages for meters may be justified, but should be systematically reviewed to determine that maximum revenues are received.

Also, we noted in the review of customer accounts, that the number of past due accounts had increased. This was reflected in the increase in the bad debt write-off of accounts receivable for water customers of $4,924

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997.

We have applied procedures to test the Tangipahoa Water District, Louisiana, compliance with the following requirements applicable to its federal financial assistance program, which is identified in the Schedule of Federal Financial Assistance, for the year ended December 31, 1996.

1) Political Activity
2) Davis-Bacon Act
3) Civil Rights
4) Cash Management
5) Federal Financial Reports
6) Administrative Requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Tangipahoa Water District, Louisiana's, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Tangipahoa Water District, Louisiana, had not complied, in all material respects, with those requirements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997.

We have audited the Tangipahoa Water District, Louisiana's, compliance with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; reporting; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the year ended December 31, 1996. The management of the Tangipahoa Water District, Louisiana, is responsible for the Tangipahoa Water District, Louisiana's, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Tangipahoa Water District, Louisiana, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Tangipahoa Water District, Louisiana, complied, in all material respects, with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; reporting; special tests and provisions, claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal financial assistance program for the year ended December 31, 1996.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Tangipahoa Water District
Tangipahoa Parish Council
Natalbany, Louisiana 70451

We have audited the component unit financial statements of the Tangipahoa Water District, Louisiana, as of and for the years ended December 31, 1996 and 1995, and have issued our report thereon dated February 22, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards,* issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Tangipahoa Water District, Louisiana, is the responsibility of the Tangipahoa Water District, Louisiana, management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Tangipahoa Water District, Louisiana, compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the component unit financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Legislative Auditor, the Rural Economic Community Development and the Federal Cognizant Agency. However, this report is a matter of public record and its distribution is not limited.

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February 22, 1997

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Page 2

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

1) Cash Receipts
2) Utility Billing
3) Payables and Disbursements
4) Inventory
5) General Ledger
6) Fixed Assets

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1996, Tangipahoa Water District, Louisiana, expended 100% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the Tangipahoa Water District, Louisiana, major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Tangipahoa Water District, in a separate letter dated February 22, 1997.

This report is intended for the information of management, the Legislative Auditor, the Rural Economic Community Development and the Federal Cognizant Agency. However, this report is a matter of public record and its distribution is not limited.

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February 22, 1997

UTILITY BILLING SYSTEM - TRAINING OF PERSONNEL

A. Weaknesses in Internal Controls:

We noted in the prior fiscal year during review of the billing process that the work done by the billing clerk was commendable. The major part of getting bills out for over 4,800 customers was completed by one person. However, since the financial well-being of the district depends on getting the bills out in a timely manner, we noted that reliance on only one person could result in decreased revenues if that person is on vacation or out on sick leave.

B. Current Year Audit Recommendations:

None.

C. Management Response to Audit Recommendations:

The district complied to prior year management recommendations and trained an individual that can also operate the utility billing system.

INVENTORY SYSTEM

A. Weaknesses in Internal Controls:

During the fiscal year ending December 31, 1995, the district implemented a new inventory system and provided an inventory report at fiscal year end. Considerable progress was made and hard work was put into implementing the inventory system. However, because of changes in personnel, we noted that the inventory system was not always up-dated on a continual basis, and certain features of the inventory software, such as producing reports for distributing costs to general ledger accounts, have not yet been utilized. The computer software provides only the means to "track" inventory receipts and usage. In order for the inventory control system to be effective, procedures for physically safeguarding access to inventory and for interfacing inventory transactions with the computer system must be established, promulgated, and followed on a consistent basis.

For the current fiscal year, we also noted that the inventory system was not maintained on a current basis until the end of the fiscal year. Since inventory had not been charged to expense or to the required fixed asset account, a required adjustment to actual of $28,938 (decreasing inventory) was required.

B. Current Year Audit Recommendations:

As in the prior fiscal year, we recommend that responsibility for maintaining inventory records be assigned and that more than one person learn the inventory software. Also, as inventory procedures are standardized, personnel should become more familiar with the reporting capabilities of the software so that timely feedback as to the system's effectiveness may be obtained.