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SOUTHEAST WATERWORKS DISTRICT
NUMBER 2
OF THE PARISH OF VERMILION
STATE OF LOUISIANA

Financial Report

Year Ended December 31, 1960

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Under provisions of state law, this report is a public document. A copy of this report has been submitted to the auditor, or inventor, and to the chief executive public officer and other appropriate public officials. The report is available for public inspection at the Union Storage office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Printing Date SEP 14 1961

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**Darnall, Sikes
& Frederick**

222 Upper Mermentau • Abbeville, Louisiana 70511

STATE OF LOUISIANA - PARISH OF VERMILION

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1 - 1997 Financial Statements
 1 - 1997 Supplemental Information
 1 - 1997 Schedule of Expenditures of Federal Awards
 1 - 1997 Schedule of Investments
 1 - 1997 Schedule of Debt

INDEPENDENT AUDITOR'S REPORT

Abbeville, Louisiana

1997 - 1998

1997 - 1998

1997 - 1998

1997 - 1998

1997 - 1998

**The Board of Commissioners
 Southeast Waterworks District Number 2
 of the Parish of Vermilion, State of Louisiana
 Abbeville, Louisiana**

We have audited the accompanying financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana (the District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 1997, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements related to management's responsibility, in all material aspects, the financial position of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, as of December 31, 1997, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 2, 1998, on our consideration of the District's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana. Such information, except for the portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to such financial statements taken as a whole.

Abbeville, Louisiana

1997 - 1998

The financial information for the preceding year, which is included for comparative purposes, was taken from the financial report for that year in which we expressed an unqualified opinion on the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana.

Dorrell Allen & Herbert

A Corporation of Certified Public Accountants

Mobility, Louisiana

July 2, 1998

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERBENNE, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Comparative Balance Sheets
December 31, 1997 and 1996

ASSETS	<u>1997</u>	<u>1996</u>
Current assets:		
Cash	\$ 41,598	\$ 30,528
Accounts receivable	25,173	25,026
Certificated deposit	20,088	-
Federal grant receivable	-	2,629
Total current assets	<u>86,859</u>	<u>88,183</u>
Restricted assets:		
Revenue bond sinking fund -		
Interest-bearing deposits	9,218	21,884
Waterworks reserve fund -		
Interest-bearing deposits	3,544	3,793
Waterworks accounting proxy fund -		
Interest-bearing deposits	4,067	4,480
Security deposit fund -		
Interest-bearing deposits	<u>3,218</u>	<u>3,207</u>
Total restricted assets	<u>20,047</u>	<u>33,364</u>
Property, plant and equipment:		
Property, plant and equipment at cost, net of accumulated depreciation	<u>2,428,824</u>	<u>2,528,099</u>
Intangible assets:		
Bond issue costs - net	15,731	16,128
Organization costs - net	<u>1,625</u>	<u>2,125</u>
	<u>17,356</u>	<u>18,253</u>
Total assets	<u>\$2,531,082</u>	<u>\$2,664,900</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND FUND EQUITY

	2007	2006
Liabilities:		
Current liabilities (payable from current assets) -		
Accounts payable	\$ 2,718	\$ 8,602
Payroll taxes	171	2,865
Other current liabilities	1,122	8,400
Current portion of revenue bonds payable	8,755	3,804
Accrued interest payable	<u>1,849</u>	<u>22,807</u>
Total current liabilities (payable from current assets)	<u>15,615</u>	<u>43,478</u>
Current liabilities (payable from restricted assets) -		
Customer deposits	<u>1,125</u>	<u>1,280</u>
Long-term liabilities -		
Revenue bonds payable	<u>782,578</u>	<u>795,000</u>
Total liabilities	<u>1,949,408</u>	<u>833,136</u>
Fund equity:		
Governmental -		
Waterworks district customers	42,176	41,400
Federal grants	1,728,880	1,794,800
Residual earnings -		
Unassigned	<u>13,748</u>	<u>23,636</u>
Total fund equity	<u>1,784,804</u>	<u>1,770,736</u>
Total liabilities and fund equity	<u>\$2,540,999</u>	<u>\$2,642,968</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERGELISE, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Comparative Statements of Revenues, Expenses and
Changes in Retained Earnings
For the Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Operating revenues:		
Charges for services -		
Water sales	\$ 277,893	\$ 109,078
Connection fees	<u>11,292</u>	<u>6,130</u>
Total operating revenues	<u>289,185</u>	<u>115,208</u>
Operating expenses:		
Water expenses	34,118	82,117
General and administrative expenses	<u>129,118</u>	<u>78,148</u>
	<u>163,236</u>	<u>160,265</u>
Operating profit (loss)	<u>125,949</u>	<u>(45,057)</u>
Nonoperating income (expenses):		
Interest income	2,773	1,524
Miscellaneous income	1,439	83
Refunds	-	(983)
Interest expense	<u>(15,073)</u>	<u>(18,039)</u>
	<u>1,139</u>	<u>(15,415)</u>
Net profit (loss)	<u>127,088</u>	<u>(60,472)</u>
A.M. Depreciation fund assets acquired by capital grants externally restricted for capital acquisitions and construction that reduces contribution/capital	<u>36,088</u>	<u>36,088</u>
Increase (decrease) in retained earnings	<u>163,176</u>	<u>(24,384)</u>
Retained earnings, beginning	<u>27,628</u>	<u>52,012</u>
Retained earnings, ending	<u>190,804</u>	<u>(24,384)</u>

The accompanying notes are an integral part of this statement.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**
Proprietary Fund Type
Utility Fund

Comparative Statement of Cash Flows
For the Years Ended December 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss)	\$ 5,073	\$ 88,609
Adjustments to reconcile net profit (loss) to net cash provided by operating activities -		
Depreciation	58,430	49,934
Amortization	868	958
Change in assets and liabilities		
Increase in accounts receivable	(1,940)	(2,006)
Increase (decrease) in other current liabilities	(7,732)	7,842
Increase (decrease) in accounts payable	(5,448)	8,562
Increase (decrease) in accrued liabilities	(10,960)	21,889
Increase (decrease) in customer deposits	(211)	1,288
Increase (decrease) in construction contracts payable	-	(17,853)
Total adjustments	22,811	(86,634)
Net cash provided/used by operating activities	27,884	(88,025)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants received	2,804	88,187
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(8,871)	(1,038)
Payments of long-term debt	(5,333)	-
Capital contributed by customers	936	-
Net cash used by capital and related financing activities	(13,268)	(1,038)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment deposit	(28,889)	-
Net increase in cash	1,287	30,287
Cash, beginning of period	69,881	39,116
Cash, end of period	\$ 71,168	\$ 69,403
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 13,134	\$ 15,708
	-----	-----

(Continued)

The accompanying notes are an integral part of this statement.

SOUTHEAST WATERWORKS DISTRICT MEMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Comparative Statements of Cash Flows (Continued)
For the Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Reconciled to cash per statement of cash flows to the balance sheet		
Cash, beginning:		
Cash - unrestricted	\$ 300	\$ -
Interest-bearing deposits - unrestricted	16,230	16,114
Interest-bearing deposits - restricted	25,861	-
Total cash	<u>\$42,391</u>	<u>\$16,114</u>
Cash, ending:		
Cash - unrestricted	\$ 300	\$ 300
Interest-bearing deposits - unrestricted	41,250	32,528
Interest-bearing deposits - restricted	20,837	23,282
Total cash	<u>\$62,387</u>	<u>\$56,110</u>

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

Notes to Financial Statements

111 Summary of Board Accounting Policies

The Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana (the District), which is a component unit of the Vermilion Parish Police Jury, was created under the provisions of Louisiana Revised Statutes 21:2811, for the purpose of providing water to the residents of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury.

The accounting and reporting policies of the District conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the industry-wide guide, *Public of State and Local Governmental Units* and the Louisiana Governmental Audit Guide.

The following is a summary of certain significant accounting policies:

A. Financial Reporting Entity

This report is composed of a proprietary fund that is administered by the District's board of commissioners and controlled by the Vermilion Parish Police Jury. The accompanying financial statements present information only on the proprietary fund maintenance; the District and do not present information on the Vermilion Parish Police Jury and the general governmental services provided by that governmental unit. The District has no component units.

B. Fund Accounting

The accounts of the District are organized on the basis of a proprietary fund, of which there exists only an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public are a continuing burden to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary Fund Types

Proprietary Funds which include enterprise and internal service funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities are provided to outside parties or to other departments agencies of the government.

Proprietary Funds are reported in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. This standard requires that all applicable GASB pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1988 be applied to proprietary activities unless they (FASB Statements and Interpretations, APB Opinions, and ARBs) conflict with or contradict GASB pronouncements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

Notes to Financial Statements (Continued)

GASB Statement No. 34 also states that for proprietary activities, management may elect to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Proprietary activities under the control of the District will not elect to apply FASB Statements and Interpretations issued after November 30, 1989, unless they are adopted by GASB.

C. Fixed Assets and Long-Term Liability

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with facilities determined by its measurement base.

The proprietary fund is accounted for on a cost of service or "capital maintenance" measurement basis, and all assets and liabilities (whether current or noncurrent) associated with its activities are included on its balance sheet.

Depreciation of all depreciable fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	50 years
Utility System and Improvements	15-30 years
Equipment	3 years

D. Method Accounting

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

The proprietary fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred.

E. Interest-Bearing Deposits and Cash Equivalents

Interest-bearing deposits are stated at cost, which approximates market. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date not longer than three months.

F. Bad Debt

The District accounts for bad debts using the direct write-off method. Expense is recognized during the period in which a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

**SOUTHEAST WATER WORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

Notes to Financial Statements (Continued)

G. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds.

H. Capitalization of Interest Expense

It is the policy of the District to capitalize material amounts of interest resulting from borrowings accounted for in the proprietary fund in the course of the construction of fixed assets. There was no interest capitalized during the year ended December 31, 1997.

I. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain revenues set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "Wastewater Bond Sinking Fund" is used to set aside resources necessary to meet annual debt service requirements. The "Wastewater Reserve Fund" is used to segregate from operations funds equal to five percent of the original bond issuances. These funds serve to prevent the District from defaulting on debt service payments in the event of deficiencies in utility operations. The "Wastewater Contingency Fund" represents reserves set aside to meet unexpected contingencies in or from significant asset replacement or repair. "Customer Deposits" represent advance deposits received from water customers which shall be either refunded upon termination of services or applied toward billings in arrears.

J. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

K. Method of Valuation

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

L. Vacation and Sick Leave

Employees of the District are entitled to some work vacation. The earned days do not vest, therefore, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of compensation liabilities when actually paid to the employees.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERNIER, STATE OF LOUISIANA**

Notable Financial Statements (Continued)

(7) Cash and Interest-Bearing Deposits

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest its cash/notes and time deposits of the state banks-organized under Louisiana law and national banks having principal offices in Louisiana. At December 31, 1997, the District has cash and interest-bearing deposits (bank balances) totaling \$81,587 of which \$20,817 is restricted cash.

Deposits	\$81,587
	<small>(\$20,817)</small>

These deposits are stated at cost, which approximates market. Under state law, these deposits, for the resulting bank balances, must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent. 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 bank. 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. Deposit balances/bank balances at December 31, 1997 were secured as follows:

Bank balances	\$81,587
	<small>(\$20,817)</small>

Federal deposit insurance	\$81,587
	<small>(\$20,817)</small>

Pledged securities (Category 2) include securities as unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the District's name. Even though the pledged securities are considered unaffiliated state law insurance statutory requirement on the custodial bank to deliver and sell the pledged securities within 30 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

(8) Fixed Assets

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

	1997	1996
Land	\$ 17,477	\$ 17,477
Buildings	158,800	160,000
Furniture, fixtures and equipment	2,387,233	2,381,000
	2,553,510	2,558,477
Less: Accumulated depreciation	(58,263)	(67,074)
	\$2,495,247	\$2,491,403

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

Notes to Financial Statements (Continued)

(4) Revenue Bonds Payable

The following is a summary of the long-term debt of the District for the year ended December 31, 1997:

	<u>\$60</u>
Utility Revenue Bonds dated May 12, 1997, payable in monthly installments of \$1,644 through May 12, 2003, including interest at 5.75% per annum	\$78,848
Less: current portion	<u>8,118</u>
Long-term	\$70,730

The annual requirements to service all debts outstanding at December 31, 1997, including interest payments of \$845,315, are as follows:

<u>Year</u>	<u>Total</u>
1998	\$ 43,734
1999	43,734
2000	43,734
2001	43,734
2002	43,734
2003 & After	<u>1,617,718</u>
Total	\$1,616,380

(5) Class of Funds, Restrictions on Use - Utility Revenues

Under the terms of the bond indenture on the \$794,000, Water Utility Revenue Bonds dated May 12, 1997, all income and receipts (excluding interest in its revenue) of every nature, earned or derived from operations of the Water Utility System are pledged and dedicated to the retirement of said bonds and are to be set aside into the following special funds:

Beginning in June, 1997, the District was required to set aside, into a "Waterworks Revenue Bond and Interest Sinking Fund", an amount sufficient to accumulate the amount needed to assure the prepayment of the principal and interest installments as they become due, and may be used for the cash payment.

There is also to be set aside \$181 monthly, into a "Waterworks Reserve Fund", beginning June, 1997, until the sum of \$43,734 has been accumulated.

Funds were also set aside into a "Waterworks Depreciation and Contingency Fund" of \$230 per month beginning June, 1997. Monies in this fund shall be used to pay the major repairs due to damage caused by an unforeseen catastrophe and for replacement made necessary by the depreciation of the system.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
(OF THE PARISH) OF VERMILION, STATE OF LOUISIANA**

Notes to Financial Statements (Continued)

(5) Flow of Funds, Recycle/Grant Use - Utility Revenues (Continued)

All of the revenues received in any fiscal year, and not required to be paid into any of the above noted funds in such fiscal year, shall be regarded as surplus and may be used for any lawful purpose.

The Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, was in compliance with all significant financial covenants and restrictions for the fiscal year ending December 31, 1997.

(6) Legal Litigation

There is no litigation pending against the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana as of December 31, 1997.

(7) Contributed Capital

Amounts contributed to enterprise funds for acquisition or construction of fixed assets are recognized as contributed capital. Contributed capital generated through grants externally received for capital acquisitions will be amortized based on the depreciation recognition for that portion of the assets acquired or constructed from such grants. This amortization is recorded in the appropriate contributed capital account and is reflected as an adjustment to net income on the Comparative Statement of Revenues, Expenses, and Changes in Funded Account Balances.

The sources of contributed capital used to acquire and construct facilities for the enterprise fund are as follows:

	<u>Grants</u>	<u>Debtors</u>	<u>Total</u>
Contributed Capital	\$1,800,000	\$2,716,000	\$4,516,000

(8) Compensation of Board Members

During the year 1997 the board members received compensation as follows:

J. Gerald Minter	\$ 900
David Gartin	900
Nelly Strain	1,000
Carol Cyprien	900
Henry Bouché	900
	<u>\$4,500</u>

(9) Subsequent Events

On March 16, 1998, the District issued a Water Revenue Bond in the amount of \$225,000 to be used for the construction of the Phase II extension. This bond is payable monthly over a forty year period, with the first payment of interest only, due on March 12, 1999. The bond bears interest at 4.875 percent per annum. In addition to the bond proceeds being used for the construction, the District was awarded a \$100,000 grant from the United States Department of Agriculture.

INTERNAL CONTROL AND COMPLIANCE

1. UNCLASSIFIED
 2. CONFIDENTIAL
 3. SECRET
 4. OTHER (Specify)

FORM NO. 1 (Rev. 10-1-80)

1. REPORT NUMBER
 2. AUTHOR
 3. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)
 4. AUTHORING OR PERFORMING ORGANIZATION REPORT NUMBER
 5. DISTRIBUTION STATEMENT (See Instructions for Reporting)

6. PRICE

7. AUTHOR(s)

8. PERFORMING ORGANIZATION REPORT NUMBER

9. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)

10. DISTRIBUTION STATEMENT (See Instructions for Reporting)

11. SUBJECT TERMS



Independent Auditor's Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

**Board of Commissioners
 Southeast Waterworks District Number 2
 of the Parish of Vermilion, State of Louisiana
 Abbeville, Louisiana**

We have audited the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana (the District), a component unit of the Vermilion Parish Police Jury, as of December 31, 1997, and for the year ended December 31, 1997, and have issued our report thereon dated July 3, 1998. We have conducted our audit in accordance with 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 District's financial statements are free of material misstatement, we 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 statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 91-3.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a control matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 91-3.

MOBILE, ALABAMA
 JULY 3, 1998
 BARNALL, SIKES & FREDERICK

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. Our consideration of the internal control structure over financial reporting 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 disclosed above as 93-1 is a material weakness.

This report is intended for the information of the board of commissioners and management. However, this report is a matter of public record and its distribution is not limited.

Dorval, Baker & Funderick

A Corporation of Certified Public Accountants

Widenerville, Louisiana
July 2, 1998

OTHER SUPPLEMENTARY INFORMATION

SOUTHEAST WATER WORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

Summary Schedule of Prior Year Findings
Year Ended December 31, 1997

99-1 Finding: Suspension of Debt

Status: This finding is unresolved. See current year finding 99-1.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VIBRANTINE, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs
Year Ended December 31, 1997

Part I: Summary of Auditor's Results

Financial Statements

Auditor's Report -- Financial Statements

An unqualified opinion has been issued on Southeast Waterworks District Number 2 of the Parish of Vibrantine, State of Louisiana (District) financial statements as of and for the year ended December 31, 1997.

Reportable Conditions -- Financial Reporting

One reportable condition in internal control over financial reporting was disclosed during the audit of the financial statements and is shown as item 97-1 in Part 2 and is considered a material weakness.

Material Noncompliance -- Financial Reporting

There was one instance of material noncompliance noted during the audit as described in item 97-2 in Part 2.

Federal Awards

This is not applicable for the fiscal year ended December 31, 1997.

Part 2: Findings Relating to an Audit in Accordance with Governmental Auditing Standards

97-1 Inadequate Supervision of Accounting Personnel

Finding:

Due to the small number of accounting personnel, the District did not have adequate segregation of functions within the accounting system.

Recommendation:

The District should study the need of possibly hiring an additional person; however, the District should address the issue of cost-benefit before hiring additional personnel.

SOUTHEAST WATERWORKS DISTRICT NUMBER 1
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 1997

97-2 **Violation of Louisiana Law**

Criteria:

Governmental entities must comply with all applicable Louisiana laws.

Finding:

The audit manager of the auditing firm has been extremely ill with cancer and the status of this engagement was not communicated to the proper individuals in the firm. This situation resulted in the District failing to comply with Louisiana Revised Statute 24:514(E)(3) which requires all audits to be completed within six months of the close of the entity's fiscal year.

Recommendation:

The District should implement procedures to insure that all applicable laws are complied with.

Part 3: Findings and Questioned Cost Relating to Federal Programs

As December 31, 1997, the District did not meet the requirements to have a single audit in accordance with OMB Circular A-133, therefore this section is not applicable.

SOUTHEAST WATER WIRING DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

Management's Corrective Action Plan For Current Year Findings
Year Ended December 31, 1999

Response to Finding:

W1-1 Separation of Duties

Based on the size of the operation and the cost-benefit of additional personnel, it is not feasible to achieve complete segregation of duties.

W1-2 Violation of Louisiana Law

The District has implemented procedures to insure that all applicable laws are complied with.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Schedule of Water Expenses
For the Year Ended December 31, 1997

Chemicals	\$ 9,080
Water installation	1,000
Residential inspection	376
Depreciation	36,459
Supplies	<u>6,159</u>
Total water expenses	<u>\$ 54,119</u>

SOUTHWEST WATERWORKS DISTRICT NUMBER 3
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Schedule of General and Administrative Expenses
For the Year Ended December 31, 1997

Advertising	\$ 2,100
Associations	500
Auto- & truck expense	2,071
Bank charges	1
Consulting services	4,680
Insurance	65,071
Legal & accounting	10,825
Licenses	10,096
Miscellaneous	1,872
Office	3,997
Postage	1,041
Repairs & maintenance	18,000
Salaries	24,771
Taxes - payroll	2,568
Taxes - other	4,400
Telephone	2,818
Utilities	17,520

Total general and administrative expenses	\$128,148

SEVENTEENTH WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
Proprietary Fund Type
Utility Fund

Schedule of Number of Utility Customers
(Unaudited)
December 31, 1991

Records maintained by the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, indicate the following number of customers had been connected for service at December 31, 1991:

Water (meters)	628
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SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

Schedule of Insurance in Force
(Continued)
December 31, 1997

<u>Description of Coverage</u>	<u>Coverage Amount</u>
Workers' compensation:	Statutory
Surety bonds -	
Fidelity bonds:	
Board/President	\$ 50,000
Vice-President	\$ 50,000
Secretary	\$ 50,000
General liability -	
Fire and lightning coverage on building	\$500,000