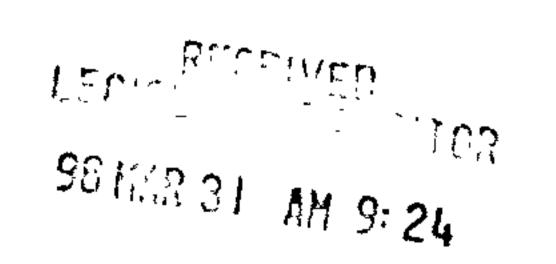
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VARNADO WATER WORKS DISTRICT

WASHINGTON PARISH POLICE JURY VARNADO, LOUISIANA

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1997

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

Release Date 4-15-98

Varnado Waterworks District Washington Parish Police Jury Varnado, Louisiana

Component Unit Financial Statements Year Ended December 31, 1997 With Supplemental Schedules

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Bruce C Harrell, CPA

Warren A. Wool, CPA Michael P Estay, CPA Dale H Jones, CPA Charles P Hebert, CPA James D. Rabalais, CPA

BRUCE HARRELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS American Institute of CPAs Society of Louisiana CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners Varnado Waterworks District Washington Parish Police Jury Varnado, Louisiana

We have audited the accompanying component unit financial statements of the Varnado Waterworks District, Louisiana, as of and for the year ended December 31, 1997, as listed in the table of contents. These component unit financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

3

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 component unit financial statements referred to above present fairly, in all material respects, the financial position of the Varnado Waterworks District, Louisiana, as of December 31, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 13, 1998 on our consideration of the Varnado Waterworks District, Louisiana's internal control over financial reporting and our test of its compliance with certain laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements of the Varnado Waterworks District, Louisiana, taken as a whole. The accompanying schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of the Varnado Waterworks 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 stated in all material respects in relation to the component unit financial statements taken as a whole.

Brun Vanell \$ Lo.

Bruce Harrell & Company, CPAs A Professional Accounting Corporation

Kentwood, Louisiana March 13, 1998

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Statement A

PROPRIETARY FUND - ENTERPRISE FUND (All Fund Types and Account Groups)

Balance Sheet December 31, 1997

ASSETS	
Current Assets:	
Cash	\$ 291,328
Investments at Cost	366,630
Accounts Receivable	29,065
Due From Other Governments	 5,132
Total Current Assets	 692,155

Destaints of Asset

Restricted Assets:	
Customer Deposits - Cash	21,125
Bond Reserve Account -	
Investment	77,098
Depreciation and Contingency Account -	
Investment	90,449
Total Restricted Assets	<u> 188.672 </u>
Property, Plant and Equipment:	
Land	31,262
Utility Plant, in Service	3,076,971
Total Dromanter Dlant and Drawings and	2 100 222
Total Property, Plant and Equipment	3,108,233
Less: Accumulated Depreciation	(1,314,238)
Net Property, Plant and Equipment	1,793,995
Total Assets	\$
(Continued on the following Page)	

Statement A

PROPRIETARY FUND - ENTERPRISE FUND (All Fund Types and Account Groups)

Balance Sheet (Continued) December 31, 1997

LIABILITIES AND FUND EQUITY

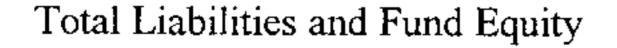
Liabilities:

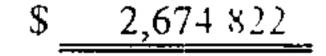
Current Liabilities (Payable From Current Assets) Accounts Payable Sales Tax Payable Payroll Taxes Payable Due to Other Governments Revenue Bonds Payable - Current

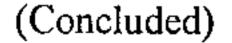
\$ 5,984 607 1,300 70 35,500

Total Current Liphilities (Payable From Current Accets)

Total Current Liabilities (Payable From Current Assets)	43,461
Current Liabilities (Payable From Restricted Assets) Customer Deposits	21,880
Long-Term Liabilities: Revenue Bonds Payable Long-Term	1,011,521
Total Liabilities	1,076,862
Fund Equity: Memberships Contributed Capital Less Accumulated Amortization Net Contributed Capital	41,500 1,428,178 (739,409) 730,269
Retained Earnings Reserved for RUS Bond Interest and Redemption Reserved for RUS Bond Depreciation and Contingency Unreserved	77,098 90,449 700,144
Total Retained Earnings	867,691
Total Fund Equity	1,597,960









Statement B

403,091

PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and **Changes in Unreserved Retained Earnings** For the Year Ended December 31, 1997

OPERATING REVENUES Charges for Services:

Charges for Services:		
Water Sales	\$ 31	3,953
Installations		1,250
Penalties		7,482
Billing Fees	6	6,015
Reconnect Fees		3,145
Other Revenues		1,246

Total Operating Revenues

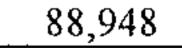
OPERATING EXPENSES

Salaries	75,530
Truck Expense	1,542
Office Expense	5,396
Maintenance Supplies	15,885
Utilities	43,173
Plant Maintenance	2,080
Repairs and Installations	•
Director Fees	21,806
Travel	5,850
Telephone	3,478
Insurance	3,338
Accounting Fees	15,183
	5,782
Conventions	495
Legal Fees	-
Membership Dues	180
Rent Expense	8
NSF Checks	27
Mowing	1,303
Advertising	315
Bank Charges	95
Miscellaneous	94
Depreciation Expense	106,104
Payroll Taxes	6,479

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Net Operating Income



(Continued on the following Page)

PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings (Continued) For the Year Ended December 31, 1997

NON-OPERATING REVENUE (EXPENSES):

Interest Income	\$	39,093
Bond Interest Expense	Ψ	(60,782)
Gain on Sale of Fixed Asset		(00,702)
Insurance Settlement		48,525
Bad Debts		-

Total Non-Operating Revenue (Expenses)

Mat Lange 1 /T 1

Statement B

26,836

Net Income (Loss)	115,784
Unreserved Retained Earnings, Beginning of Year	557,101
Add: Amortization of Contributions Less: (Increase) in Reserve for Revenue Bond Retirement (Increase) in Reserve for Revenue Bond Contingency	47,605 (9,682) (10,664)
Unreserved Retained Earnings, End of Year	\$ 700,144

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(Concluded)

Statement C

PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows For the Year Ended December 31, 1997

Cash flows from operating activities:		
Operating Income		\$ 88,948
Adjustments to Reconcile Net Operating Income		
to Net Cash Provided by Operating Activities:		
Depreciation	\$ \$106,104	
Changes in Accounts Receivable	(2,094)	
Changes in Due From Other Governments	-	
Changes in Accounts Payable and Accrued Expenses	(1,661)	
Changes in Due to Other Governments	70	
Changes in Current Liabilities Payable from		
Restricted Assets	1,265	

Total adjustments		103,684
Net cash provided by operating activities		192,632
Cash flows from noncapital financing activities: Insurance Settlement	48,525	
Net cash provided by noncapital financing activities		48,525
Cash flows from capital and related financing activities:		
Retirement of Revenue Bonds	(35,218)	
Interest	(60,782)	
Capital Additions	(90,597)	
Net cash used by capital and related financing activities		(186,597)
Cash flows from investing activities:		
Interest Income	39,093	
Investment Purchases	(127,931)	
Net cash provided by investing activities		(88,838)

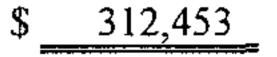
Net cash increase (decrease) for year

(34,278)

346,731

Cash at beginning of year

Cash at end of year



Notes to the Financial Statements As of and for the Year Ended December 31, 1997

INTRODUCTION

Varnado Waterworks District was established in 1975, by an ordinance of the Washington Parish Police Jury. The ordinance, enacted pursuant to Louisiana Revised Statutes 33:3813, describes and defines the boundaries of the water district, and provides for a 8-member governing board of commissioners appointed by the Washington Parish Police Jury.

Varnado Waterworks District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments. Varnado Waterworks District serves 1,215 water customers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying component unit financial statements of the Varnado Waterworks 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, the Washington Parish Police Jury is the financial reporting entity for Washington Parish. The financial reporting entity consists of (a) the primary government (police jury), (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.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Washington Parish Police Jury 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.

- 1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the police jury 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 police jury.
- 2. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
- 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 police jury appoints the governing board and the scope of public service is determined by the police jury, the district was determined to be a component unit of the Washington Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the fund maintained by the district and does not present information on the police jury, the general governmental services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Varnado Waterworks 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 a 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. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

Fees for water services are recorded as revenues after the meters are read. Penalties are recorded after the grace period for payment of water services has expired. All other revenues are recorded when the service has been provided.

Expenditures

All operating expenses, except depreciation, are recorded when they are incurred. Depreciation is recorded each month over the life of the asset. Interest expense is recorded each month as the notes are paid.

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.

Under state law, the district may invest in United States bonds, treasury notes, or certificates. These are classified as investments if the original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments are stated at cost.

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F. INVENTORIES

Purchase of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

G. PREPAID ITEMS

Purchase of items regarded as having a future economical use are an expense when purchased, and prepaid amounts for such items are not recorded as assets at the close of the fiscal year.

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 bond 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 25 to 30 years for water wells and lines and 10 to 15 years for equipment.

J. COMPENSATED ABSLNCES

The district does not have a formal policy relating to vacation and sick leave.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. FUND EQUITY

Contributed Capital

Grants, entitlements, or shared revenues received 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. This amortization is closed to the contributed capital account.

Reserves

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

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2. CASH AND CASH EQUIVALENTS

At December 31, 1997, the district has cash and cash equivalents (book balances) totaling \$312,453, as follows:

Demand Deposits	\$103,757
Interest-bearing Demand Deposits	15,123
Time Deposits	193,573
Total	\$312,453

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, 1997, the district has \$312,929 in deposits (collected bank balances). These deposits are secured from risk by \$302,698 of federal deposit insurance and \$4,231 of pledged securities held by the custodial bank in the name of the fiscal agent bank (Category 3). The remaining bank balance of \$6,000 is not secured by the pledge of securities at December 31, 1997 and is a violation of state law.

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. INVESTMENTS

At December 31, 1997, the district has investments totaling \$534,177 as follows:

	Book Value	Market Value
Government Money Market	\$ 95,177	\$ 95,177
FHLMC - Edward D Jones	332,001	330,654
FHLMC - Prudential	106,999	107,083
Total	\$534,177	\$532,914

The investments are in the name of the district and are held in the district's safety deposit box. Because the investments are in the name of the district and are held by the district, the investments are considered insured and registered, Category 1, in applying the credit risk of GASB Codification Section I50.164.

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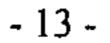
4. FIXED ASSETS

A summary of fixed assets at December 31, 1997, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Phase I (1979)					
Old Water System	25	\$ 53,497	\$ 39,589	\$ 13,908	\$ 2,140
Land & Right of Way		5,597	-	5,597	
Water Distribution System	30	569,585	351,242	218,343	18,986
Water Well	30	65,467	40,368	25,099	2,182
Phase II (1980)					
Water Distribution System	30	212,668	124,057	88,611	7,089
Water Well	30	87,721	51,170	36,551	2,924
Well Site & Pump Station	30	21,885	12,773	9,112	730
Improvements	30	12,433	1,854	10,579	414
Phase III (1984)				,	
Water Distribution System	30	294,633	136,945	157,688	9,821
Water Well	30	107,154	50,008	57,146	3,572
Pump Station Controls	30	248,997	116,200	132,797	8,300
Elevated Storage Tank	30	238,169	111,146	127,023	7,939
Land & Right of Way		13,225	-	13,225	-
Phase IV (1989)				·	
Land		2,000	-	2,000	-
Water Distribution System	30	897,130	254,193	642,937	29,904
Improvements	30	32,616	1,631	30,985	1,087
Chlorinator	5	4,884	1,463	3,421	975
Improvements	30	83,097	462	82,635	462
Office Building Land		10,440	-	10,440	-
Office Building	30	111,045	11,957	99,088	3,702
Office Equipment	5	6,870	4,317	2,553	1,374
Equipment	7	7,500	179	7,321	179
Vehicle	5	21,620	4,684	16,936	4,324
Totals		\$3,108,233	\$ 1,314,238	\$ 1,793,995	\$ 106,104
All assets are depreciated by the	straight-	line method.			

All assets are depreciated by the straight-line method.

The utility plant and equipment in service records were reconstructed from the original construction files of the U.S. Department of Agriculture, Rural Utility Service.



5. RECEIVABLES

The following is a summary of accounts receivables at December 31, 1997:

Current	\$ 26,100
31-60 Days	3,878
61-90 Days	910
Over 90 Days	145
Total	31,033
Less: Allowance for Bad Debts	1 968
Accounts Receivable, Net	<u>\$ 29.065</u>

6. CONSTRUCTION IN PROGRESS

As of December 31, 1997, the district had no construction in progress.

7. LONG-TERM DEBT

The following is a summary of bond transactions of the Varnado Waterworks District for the year ended December 31, 1997:

	77 RUS1979 RUSUtilityUtilityLevenueRevenue		1988 RUS Utility Revenue		Total	
Bonds Payable January 1, 1997	\$ 220,802	\$	14,268	\$	847,169	\$ 1,082,239
Bonds Retired	(15,945)		(5,796)		(13,477)	(35,218)
Bonds Payable December 31, 1997	\$ 204,857		8,472	\$	833,692	\$ 1,047,021

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Bonds Payable at December 31, 1997, are comprised of the following individual Issues:

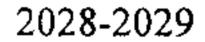
	A	Current Amount 2/31/97		ong-Term Amount 2/31/97	Total Principal Balance 12/31/97	
1977 Revenue Bonds: \$395,000 utility bonds sold to RUS, dated 11/19/76; due in annual installments of \$5,000 - \$20,000 through November 16, 2017; interest at 5%	\$	16,000	\$	188,857	\$ 204,85	57
1979 Revenue Bonds: \$76,000 utility bonds sold to RUS, dated 11/16/80; due in annual installments of \$2,000 - \$5,000 through November 16,		-	-		+ _ • .,00	
2017; interest at 5%		6,000		2,472	8,47	2

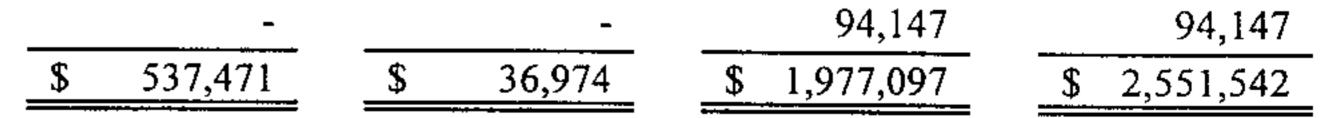
1988 Revenue Bonds: \$925,000 utility bonds sold to RUS, dated 3/29/88; due in annual installments of \$6,000 - \$55,000 through June 15, 2029; interest at 5.875%

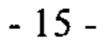
 13,500	 820,192	833,692
\$ 35,500	\$ 1,011,521	\$1,047,021

The annual requirements to amortize all debt outstanding as of December 31, 1997, including interest payments of \$1,504,521 are as follows:

Year Ending December 31,	_	1977 RUS Revenue		79 RUS evenue	88 RUS evenue	Total
1998	\$	26,986	\$	6,249	\$ 62,765	\$ 96,000
1999		26,986		6,249	62,765	96,000
2000		26,986		6,249	62,765	96,000
2001		26,986		6,249	62,765	96,000
2002		26,986		6,249	62,765	96,000
2003-2007		134,930		5,729	313,825	454,484
2008-2012		134,930		_	313,825	448,755
2013-2017		132,681		-	313,825	446,506
2018-2022		-		-	313,825	313,825
2023-2027		-		-	313,825	313,825







8. FLOW OF FUNDS, RESTRICTIONS ON USE

The voters of the district approved the issuance of \$395,000, \$76,000, and \$925,000 of the utility revenue bonds in elections held January, 1977, November 13, 1978, and April 13, 1988. The governing authority of the district adopted a resolution on October 4, 1977, authorizing issuance of \$395,000 of the water revenue bonds - 1977 Series. On November 16, 1977, the district sold the \$395,000 authorized bonds to Farmers Home Administration now known as USDA Rural Utility Service. The governing authority of the district adopted a resolution on March 29, 1979, authorizing the issuance of \$76,000 of the utility revenue bonds - 1979 Series. On November 16, 1977, the district sold the \$1970 of the utility revenue bonds - 1979 Series. On November 16, 1977, the district sold the \$76,000 authorized bonds to RUS, also. The bond issues were issued for forty (40) years, twenty-four (24) years, and forty (40) years respectively, payable with interest at the rate of five percent (5%) per annum for the 1976 &1977 bond issues, and five and seven-eights percent (5.875%) per annum on the 1988 bond issue. The bonds and any installment may be paid prior to the due date and maturity thereof at a price of par and accrued interest to the date of prepayment. The proceeds of the bonds were restricted to use for construction and improvements to the district's water system and are subject to the provisions of the above adopted resolutions. The 1977 issue of \$395,000, was used to construct Phase I of the district's waterworks system. The 1979 issue of \$76,000 was used to construct Phase IV.

Under the terms of the bond proceeds to the district, the bonds are payable as to principal and interest solely from the income and revenues derived from the operations of the combined water system of the district after provisions have been made for the payment of the reasonable and necessary expenses of administering, operating, and maintaining of the system.

The district is to maintain its water rates at minium amounts and increase these rates as necessary in accordance with its loan agreements with RUS.

Each month there will be set aside into a fund called "Bond and Interest Sinking (Redemption) Fund" a sum equal to one-twelfth (1/12) of the next principal payment due, together with such proportionate sum as may be required as the same respectfully become due on such date. Money in the Sinking Fund shall be deposited as trust funds and shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments. Alternately, RUS has set up a payment schedule whereby the district can make payments directly to its office. This eliminates the need of the "Bond and Interest Sinking Fund".

There shall also be set aside into a "Utility System Revenue Bond Reserve Fund" at a rate of \$400 per month, after the construction becomes revenue producing, until there is accumulated therein an amount equal to the highest annual debt service payment in any future year. Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund, as to which there would otherwise be default. The district fully funded the Reserve Fund for the year ended December 31, 1997.

Funds will also be set aside into a "Depreciation and Contingency Fund", after completion of the project, at the rate of \$398 per month. Money in this fund will be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition, enhance its revenue producing capacity or provide for a higher degree of service for which money is not available as a maintenance and operation expense. Money in this fund may also be used to pay principal and interest on the bonds falling due at any time there is not sufficient money for payments in other bond funds. The district fully funded the Depreciation and Contingency Fund for the year ended December 31, 1997.

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

9. FUND EQUITY

Reserved Retained Earnings is created in conjunction with the issuance of revenue bonds and is funded by transfers from the revenue account, based on assets held by the water district that are restricted for bond payments. The purpose of the reserved retained earnings is to service the revenue bonds.

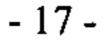
10. LITIGATION CLAIMS SETTLED

During the 1993 annual audit, it was discovered that \$24,493 for 1993, and \$42,098 for 1994, of the district's collections, that were received during the year, were never deposited into the bank and were presumed missing. An investigation was conducted to try to determine where the missing funds went. A state grand jury has convicted the contract manager and one of his employees regarding the losses. The district has recognized the losses of \$24,493 for 1993 and \$42,098 for 1994, in its financial statements. The district notified their bonding company of the losses. The insurance company denied the claim for the losses. The district filed suits against the insurance carrier and the contract manager for recovery of the losses. The district received \$48,525 from their bonding company in the current was a settlement of the prior was losses.

year as a settlement of the prior year losses.

11. INTERGOVERNMENTAL AGREEMENT

The Varnado Waterworks District entered into a service agreement with the Bogue Lusa Water Works District and the Varnado Gas District. The Varnado Waterworks District will perform all necessary functions involving billing of customers, collection of customer's accounts, keeping and furnishing necessary financial information and records on a monthly basis to Bogue Lusa Water Works District and Varnado Gas District. The Varnado Waterworks District also performs meter reading for Varnado Gas District. The fee for this service is \$1.75 per customer per month for Bogue Lusa Water Works and \$2.35 per customer per month for Varnado Gas District, payable monthly Varnado Waterworks District will provide all system repair and maintenance customarily done by its own personnel. Accurate hourly records of personnel records involved in repairs shall be kept and Bogue Lusa Water Works District and Varnado Gas District will be billed monthly at two times the employees hourly rate. All materials, parts and supplies will be paid directly by the district which incurred the cost. Varnado Waterworks District employees will keep accurate mileage records for the service truck used for maintenance and repairs and will bill the other districts 35 cents per mile for work done on their respective systems. Periodically, an accounting will be made of the costs of the services provided under the agreement. Cash settlements will be made between the districts, so each district pays its portion of the actual costs.



Schedule 1

PROPRIETARY FUND - ENTERPRISE FUND (All Fund Types and Account Groups)

Comparative Balance Sheet December 31, 1997 and 1996

ASSETS		
Current Assets:	1997	1996
Cash	\$ 291,328	\$ 314,177
Investments at Cost	366,630	270,919
Accounts Receivable	29,065	26,971
Due From Other Governments	5,132	5,133
Total Current Assets	692,155	617,200

Restricted Assets

Restricted Assets:		
Customer Deposits - Cash	21,125	20,680
Bond Reserve Account -		, ,
Cash	-	7,271
Investment	77,098	60,145
Depreciation and Contingency Account -		
Cash	_	4,603
Investment	90,449	75,182
Total Restricted Assets	188,672	167,881
Property, Plant and Equipment:		
Land	31,262	31,262
Utility Plant, in Service	3,076,971	2,986,374
Total Property, Plant and Equipment	3,108,233	3,017,636
Less: Accumulated Depreciation	(1,314,238)	(1,208,134)
Net Property, Plant and Equipment	1,793,995	
Total Assets	\$ <u>2,674,822</u>	\$ <u>2,594,583</u>
(Continued on the following Page)		

Schedule 1

PROPRIETARY FUND - ENTERPRISE FUND (All Fund Types and Account Groups)

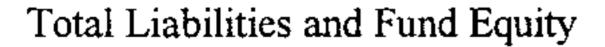
Balance Sheet (Continued) December 31, 1997

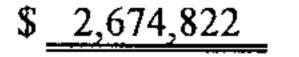
LIABILITIES AND FUND EQUITY

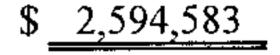
Liabilities:

Current Liabilities (Payable From Current Assets):	1997	1996		
Accounts Payable	\$ 5,984	\$ 7,508		
Sales Tax Payable	607	808		
Payroll Taxes Payable	1,300	1,236		
Due to Other Governments	70	-		
Revenue Bonds Payable - Current	 35,500	 34,500		

Total Current Liabilities (Payable From Current Assets)	43,461	44,052
Current Liabilities (Payable From Restricted Assets) Customer Deposits	21,880	20,615
Long-Term Liabilities: Revenue Bonds Payable Long-Term	1,011,521	1,047,739
Total Liabilities	1,076,862	1,112,406
Fund Equity: Memberships Contributed Capital Less Accumulated Amortization	41,500 1,428,178 (739,409)	41,500 1,428,178 (691,803)
Net Contributed Capital	730,269	777,875
Retained Earnings: Reserved for RUS Bond Interest and Redemption Reserved for RUS Bond Depreciation and Contingency Unreserved	77,098 90,449 700,144	67,416 79,785 557,101
Total Retained Earnings	867,691	704,302
Total Fund Equity	1,597,960	1,482,177







(Concluded)

The accompanying notes are an integral part of this statement.

-20-

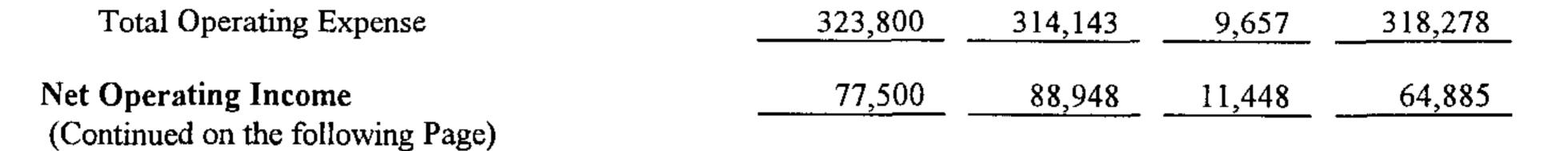
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VARNADO WATERWORKS DISTRICT Washington Parish Police Jury Varnado, Louisiana

Schedule 2

PROPRIETARY FUND - ENTERPRISE FUND SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN UNRESERVED RETAINED EARNINGS (BUDGET AND ACTUAL) For the Year Ended December 31, 1997 and Actual For the Year Ended December 31, 1996

			Variance-	
OPERATING REVENUES			Favorable	1996
Charges for Services:	Budget	Actual	<u>(Unfavorable)</u>	Actual
	,	\$ 313,953	\$	296,758
Installations	9,500	11,250	1,750	11,000
Penalties	7,500	7,482	(18)	7,543
Billing Fees	67,000	66,015	(985)	64,514
Reconnect Fees	3,000	3,145	145	1,770
Other Revenues	1,300	1,246	(54)	1,578
Total Operating Revenues	401,300	403,091	1,791	383,163
OPERATING EXPENSES				
Salaries	76,000	75,530	470	78,970
Truck Expense	1,600	1,542	58	1,307
Office Expense	6,500	5,396	1,104	8,756
Maintenance Supplies	16,000	15,885	115	23,003
Utilities	44,000	43,173	827	40,711
Plant Maintenance	2,500	2,080	420	1,199
Repairs and Installations	25,000	21,806	3,194	16,166
Director Fees	6,000	5,850	150	6,500
Travel	3,800	3,478	322	3,440
Telephone	3,500	3,338	162	2,656
Insurance	17,000	15,183	1,817	15,093
Accounting Fees	6,000	5,782	218	5,906
Conventions	400	495	(95)	486
Legal Fees	-	-	-	112
Membership Dues	200	180	20	184
Rent Expense	100	8	92	-
NSF Checks	300	27	273	-
Mowing	1,400	1,303	97	1,109
Advertising	400	315	85	2,405
Bank Charges	100	95	5	-
Miscellaneous	100	94	6	8
Depreciation Expense	106,100	106,104	(4)	103 768
Payroll Taxes	6,800	6,479	321	6 499



VARNADO WATERWORKS DISTRICT Washington Parish Police Jury Varnado, Louisiana

Schedule 2

PROPRIETARY FUND - ENTERPRISE FUND SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN UNRESERVED RETAINED EARNINGS (BUDGET AND ACTUAL) For the Year Ended December 31, 1997 and Actual For the Year Ended December 31, 1996

		Budget	Actual	F	ariance- avorable avorable	:)_	1996 Actual
NON-OPERATING REVENUE (EXPENSES):							
Interest Income	\$	38 800 \$	39,093	\$	293	\$	28,947
Bond Interest Expense		(62,500)	(60,782)		1,718		(65,983)
Gain on Sale of Fixed Asset		-	-		-		3,375
Insurance Settlement		48,500	48,525		25		-
Bad Debts	-	(2,500)	-		2,500	_	

Total Non-Operating Revenue (Expenses)	 22,300	26,836	4,536	(33,661)
Net Income (Loss)	\$ 99,800	115,784 \$	15,984	31,224
Unreserved Retained Earnings Beginning of Year		557,101		490,883
Add: Amortization of Contributions		47,605		47,606
Less (Increase) in Reserve for Revenue Bond Retirement (Increase) in Reserve for Revenue		(9,682)		(6,196)
Bond Contingency		(10,664)		(6,416)
Unreserved Retained Earnings, End of Year		\$ <u>700,144</u>	\$_	557,101

(Concluded)

Schedule 3

SCHEDULE OF COMPENSATION PAID BOARD MEMBERS For the Year Ended December 31, 1997

The schedule of compensation paid board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

	Amount
Homer Seal, President	\$800
T. A. Magee, Commissioner	750
Wayne Seal, Commissioner	800
Freddie Jefferrson, Commissioner	650
Melodysee Peters, Commissioner	750
Berkley Thomas	700
Ancel Williams	700
Argil Boone	700
Total Compensation Paid	\$5,850

Board of Commissioners	Address	Term of Office
Homer Seal, President	62823 Main St. Angie, LA 70426	01/01/96 to
T. A. Magee	20551 Windy Ridge Rd. Bogalusa, LA 70427	12/31/2000 01/01/96 to 12/31/97
Wayne Seal	61269 Dollar Road Angie, LA 70426	01/01/96 to 12/31/98
Freddie Jefferrson, Vice- Pres.	31110 School Rd. Angie, LA 70426	01/01/97 to 12/31/01
Melodysee Peters	24279 Old Columbia Road Angie, LA 70426	01/01/96 to 12/31/98
Berkley Thomas	20078 Edwards Drive Bogalusa, LA 70427	01/01/96 to 12/31/99
Ancel Williams	63293 Fornea Road	01/01/96

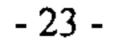
Angie, LA 70426

to 12/31/99 01/01/96 to

12/31/2000

Argil Boone

61768 Seal Road Angie, LA 70426



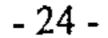
Schedule 4

SCHEDULE OF INSURANCE For the Year Ended December 31, 1997

Insurance Company	Coverage	Effective Date	Expiration Date
Western Surety Bond # 18216102	Position Fidelity Schedule Bonds, Coverage for 3 Board Members for \$100,000 and \$25,000 for Office Manager and \$25,000 for Clerk	11/16/96 11/16/97	11/16/97 11/16/98
Hartford Insurance Company Police # 953324908	Boiler & Machinery Policy, Blanket Coverage of \$300,000 for 5 locations Deductible of \$1,000, Expecting Expenses of \$25,000	03/01/96 03/01/97	02/28/97 02/28/98
Titan Insurance Company Policy # 90-HP-02337	General Liability of \$1,000,000 Combined Single Limit	03/01/96 03/01/97	02/28/97 02/28/98
Titan Insurance Company Policy # 90-HP-02337	Public Officials Liability Policy Coverage of \$1,000,000 for Any One Claim with a Deductible of \$2,500 for each claimant with a \$7,500 Maximum	03/01/96 03/01/97	02/28/97 02/28/98
Titan Insurance Company Policy # 90-HP-02337	Commercial Property Package \$85,000 Building Limit \$20,000 Personal Property	02/28/96 02/28/97	02 /28/97 02 /28/98
Titan Indemnity Company Policy # 90-HP-02337	Business Auto \$1,000,000/ \$1,000,000/ \$1,000,000	03/01/96 03/01/97	02/28/97 02/28/98
LA Worker's Compensation Corporation	Worker's Compensation	Statutory Limits	Continuing Policy

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The accompanying notes are an integral part of this statement.



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VARNADO WATERWORKS DISTRICT Washington Parish Police Jury Varnado, Louisiana

Schedule 5

SCHEDULE OF CHANGES IN ASSETS RESTRICTED FOR USDA RURAL UTILITY SERVICE AND SCHEDULE OF WATER CUSTOMERS For the Year Ended Year Ended December 31, 1997

	Bond Depreciation Bond and <u>Reserve Contingency Total</u>				
Cash Balance, January 1, 1997	\$67,416	\$79,785	\$147,201		
Cash Receipts:					
Transfers From Operating Account	4,800	4,776	9,576		
Interest Earned	4,882	5,888	10,770		

Cash Disbursements

Cash Balance, December 31, 1997

<u>\$77,098</u> <u>\$90,449</u> <u>\$167,547</u>

-

SCHEDULE OF WATER CUSTOMERS

As of December 31, 1997, the district had the following number of customers.

Water-Residential	1,186
Water-Commercial	24
Water-School	4
Water-Prison	1
Total Water Customers	1,215

Schedule 6	Loan Balance at 12/31/97 \$1,047,021		
	Repayments \$35,218	is repaying.	
Ś	Receipts \$-	Service loans, which the district	
y ERAL AWARDS	Loan Balance at 1/1/97 \$1,082,239	Service loans,	

Varnado Waterworks District Washington Parish Police Jury Varnado, Louisiana

SCHEDULE OF EXPENDITURES OF FEDE December 31, 1997

Program	\$1,396,000
Pass-Through Grantor's No.	22-059-0720822825
CFDA Number	* 10.418
Through	culture

The only federal awards the Varnado Waterworks District has is the USDA Rural Utility * Note:

The accompanying notes are

Federal Grantor/ Pass-Th Grantor/ Program Title U. S. Department of Agricu Rural Utility Service

Schedule 7

Schedule of Corrective Action Plan for **Current Year Audit Findings** For the Year Ended December 31, 1997

Reference Number 97-1:

Description of Finding

As of December 31, 1997, the Varnado Waterworks District had unsecured deposits of \$6,000 in a local bank. This is in violation of the cash management laws.

Corrective Action Planned

Varnado Waterworks District's management will request proper collateral from the financial institution to be in compliance with the cash management law.

Contact Person

Mary Thigpen, Manager

Anticipated Completion Date

March 31, 1998.

Reference Number 97-2:

Description of Finding

During the year ended December 31, 1997, the Varnado Waterworks District purchased a used air compressor without receiving the 3 proper quotes. This is in violation of the public bid law.

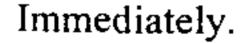
Corrective Action Planned

Varnado Waterworks District's management is of the opinion that the price they purchased the air compressor for was a very fair price, and that it would have been very difficult to acquire a comparable bid by another vendor for an air compressor in the same condition. However, management has agreed to follow the public bid law in the future, as required by state law.

Contact Person

Mary Thigpen, Manager

Anticipated Completion Date





Bruce C. Harrell, CPA

Warren A. Wool, CPA Michael P. Estay, CPA Dale H. Jones, CPA Charles P. Hebert, CPA James D. Rabalais, CPA

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MEMBERS American Institute of CPAs Society of Louisiana CPAs

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

Board of Commissioners Varnado Waterworks District Washington Parish Police Jury Varnado, Louísiana

We have audited the financial statements of the Varnado Waterworks District, Louisiana, as of and for the year ended December 31, 1997, and have issued our report thereon dated March 13, 1998. 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.

Compliance

As part of obtaining reasonable assurance about whether the Varnado Waterworks District, Louisiana's financial statements are free of material misstatement, we performed tests of it's 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 such provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Governmental Auditing Standards* which are described in Schedule 6 as items 97-1 and 97-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Varnado Waterworks District, Louisiana'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. Our consideration of the internal control over financial reporting that might be material would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Louisiana Legislative Auditor, and the USDA Rural Utility Service. However, this report is a matter of public record and its distribution is not limited.

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Bruce Harrell & Company, CPAs A Professional Accounting Corporation

Kentwood, Louisiana March 13, 1998

