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VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
VARNADO, LOUISIANA

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 1997

Under provisions of state law, 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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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.

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.


Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

Kentwood, Louisiana
March 13, 1998

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

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 |
| | 692,155 |

Total Current Assets

Restricted Assets:

| | |
|--|---------|
| Customer Deposits - Cash | 21,125 |
| Bond Reserve Account - Investment | 77,098 |
| Depreciation and Contingency Account - Investment | 90,449 |
| | 188,672 |

Total Restricted Assets

Property, Plant and Equipment:

| | |
|---------------------------|-----------|
| Land | 31,262 |
| Utility Plant, in Service | 3,076,971 |
| | 3,108,233 |

Total Property, Plant and Equipment

Less: Accumulated Depreciation

(1,314,238)

Net Property, Plant and Equipment

1,793,995

Total Assets

\$ 2,674,822

(Continued on the following Page)

The accompanying notes are an integral part of this statement.

VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana

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 | \$ 5,984 |
| Sales Tax Payable | 607 |
| Payroll Taxes Payable | 1,300 |
| Due to Other Governments | 70 |
| Revenue Bonds Payable - Current | <u>35,500</u> |

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 | 41,500 |
| Contributed Capital | 1,428,178 |
| Less Accumulated Amortization | <u>(739,409)</u> |

Net Contributed Capital 730,269

Retained Earnings

| | |
|--|----------------|
| Reserved for RUS Bond Interest and Redemption | 77,098 |
| Reserved for RUS Bond Depreciation and Contingency | 90,449 |
| Unreserved | <u>700,144</u> |

Total Retained Earnings 867,691

Total Fund Equity 1,597,960

Total Liabilities and Fund Equity \$ 2,674,822

(Concluded)

The accompanying notes are an integral part of this statement.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

Statement B

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:

| | |
|----------------|------------|
| Water Sales | \$ 313,953 |
| Installations | 11,250 |
| Penalties | 7,482 |
| Billing Fees | 66,015 |
| Reconnect Fees | 3,145 |
| Other Revenues | 1,246 |
| | 403,091 |

Total Operating Revenues

403,091

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 | 21,806 |
| Director Fees | 5,850 |
| Travel | 3,478 |
| Telephone | 3,338 |
| Insurance | 15,183 |
| Accounting Fees | 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 |
| | 314,143 |

Total Operating Expense

314,143

Net Operating Income

88,948

(Continued on the following Page)

The accompanying notes are an integral part of this statement.

VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana

Statement B

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 | (60,782) |
| Gain on Sale of Fixed Asset | - |
| Insurance Settlement | 48,525 |
| Bad Debts | - |
| | <hr/> |
| Total Non-Operating Revenue (Expenses) | 26,836 |
| | <hr/> |
| Net Income (Loss) | 115,784 |
| Unreserved Retained Earnings, Beginning of Year | 557,101 |
| Add: Amortization of Contributions | 47,605 |
| Less: (Increase) in Reserve for Revenue Bond Retirement | (9,682) |
| (Increase) in Reserve for Revenue Bond Contingency | (10,664) |
| | <hr/> |
| Unreserved Retained Earnings, End of Year | \$ <u>700,144</u> |
| (Concluded) | |

The accompanying notes are an integral part of this statement.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

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 | <u>1,265</u> | |
| Total adjustments | | <u>103,684</u> |
| Net cash provided by operating activities | | 192,632 |

Cash flows from noncapital financing activities:

| | | |
|--|---------------|--------|
| Insurance Settlement | <u>48,525</u> | |
| 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 | <u>(90,597)</u> | |
| Net cash used by capital and related financing activities | | (186,597) |

Cash flows from investing activities:

| | | |
|---|------------------|-----------------|
| Interest Income | 39,093 | |
| Investment Purchases | <u>(127,931)</u> | |
| Net cash provided by investing activities | | <u>(88,838)</u> |

| | | |
|---------------------------------------|--|-------------------|
| Net cash increase (decrease) for year | | (34,278) |
| Cash at beginning of year | | <u>346,731</u> |
| Cash at end of year | | <u>\$ 312,453</u> |

The accompanying notes are an integral part of this statement.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

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. This criteria includes:

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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)**

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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)**

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 ABSENCES

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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)**

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 | <u>\$312,453</u> |

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 | <u>\$534,177</u> | <u>\$532,914</u> |

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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**
Notes to the Financial Statements (Continued)

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 | | <u>\$3,108,233</u> | <u>\$ 1,314,238</u> | <u>\$ 1,793,995</u> | <u>\$ 106,104</u> |

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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**
Notes to the Financial Statements (Continued)

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 | \$ 29,065 |

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:

| | 1977 RUS Utility Revenue | 1979 RUS Utility Revenue | 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 |

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)**

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

| | Current Amount 12/31/97 | Long-Term Amount 12/31/97 | 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 | \$ 204,857 |
| 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, 2017; interest at 5% | 6,000 | 2,472 | 8,472 |
| 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 |
| | <u>\$ 35,500</u> | <u>\$ 1,011,521</u> | <u>\$ 1,047,021</u> |

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 | 1979 RUS Revenue | 1988 RUS Revenue | 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 |
| 2028-2029 | - | - | 94,147 | 94,147 |
| | <u>\$ 537,471</u> | <u>\$ 36,974</u> | <u>\$ 1,977,097</u> | <u>\$ 2,551,542</u> |

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)**

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 \$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-eighths 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 II. The 1988 issue of \$925,000 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 minimum 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.

VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana
Notes to the Financial Statements (Continued)

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 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.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

Schedule 1

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

**Comparative Balance Sheet
December 31, 1997 and 1996**

ASSETS

| | <u>1997</u> | <u>1996</u> |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 291,328 | \$ 314,177 |
| Investments at Cost | 366,630 | 270,919 |
| Accounts Receivable | 29,065 | 26,971 |
| Due From Other Governments | <u>5,132</u> | <u>5,133</u> |
| Total Current Assets | <u>692,155</u> | <u>617,200</u> |
| 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 | <u>90,449</u> | <u>75,182</u> |
| Total Restricted Assets | <u>188,672</u> | <u>167,881</u> |
| Property, Plant and Equipment: | | |
| Land | 31,262 | 31,262 |
| Utility Plant, in Service | <u>3,076,971</u> | <u>2,986,374</u> |
| Total Property, Plant and Equipment | 3,108,233 | 3,017,636 |
| Less: Accumulated Depreciation | <u>(1,314,238)</u> | <u>(1,208,134)</u> |
| Net Property, Plant and Equipment | <u>1,793,995</u> | <u>1,809,502</u> |
| Total Assets | <u>\$ 2,674,822</u> | <u>\$ 2,594,583</u> |

(Continued on the following Page)

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

Schedule 1

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

**Balance Sheet
(Continued)
December 31, 1997**

LIABILITIES AND FUND EQUITY

Liabilities:

| | 1997 | 1996 |
|---|--------------|--------------|
| Current Liabilities (Payable From Current Assets): | | |
| 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 | 41,500 | 41,500 |
| Contributed Capital | 1,428,178 | 1,428,178 |
| Less Accumulated Amortization | (739,409) | (691,803) |
| Net Contributed Capital | 730,269 | 777,875 |
| Retained Earnings: | | |
| Reserved for RUS Bond Interest and Redemption | 77,098 | 67,416 |
| Reserved for RUS Bond Depreciation and Contingency | 90,449 | 79,785 |
| Unreserved | 700,144 | 557,101 |
| Total Retained Earnings | 867,691 | 704,302 |
| Total Fund Equity | 1,597,960 | 1,482,177 |
| Total Liabilities and Fund Equity | \$ 2,674,822 | \$ 2,594,583 |

(Concluded)

The accompanying notes are an integral part of this statement.

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

| OPERATING REVENUES | | | Variance- Favorable | 1996 |
|-----------------------------|------------|------------|------------------------|------------|
| Charges for Services: | Budget | Actual | (Unfavorable) | Actual |
| Water Sales | \$ 313,000 | \$ 313,953 | \$ 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 |
| | 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 |
| | 323,800 | 314,143 | 9,657 | 318,278 |
| | | | | |
| Net Operating Income | 77,500 | 88,948 | 11,448 | 64,885 |

(Continued on the following Page)

The accompanying notes are an integral part of this statement.

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 | Variance- Favorable (Unfavorable) | 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 | - |
| | 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 | | (9,682) | | (6,196) |
| (Increase) in Reserve for Revenue Bond Contingency | | (10,664) | | (6,416) |
| Unreserved Retained Earnings, End of Year | | \$ 700,144 | | \$ 557,101 |

(Concluded)

The accompanying notes are an integral part of this statement.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

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.

| NAME | 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 12/31/2000 |
| T. A. Magee | 20551 Windy Ridge Rd. Bogalusa, LA 70427 | 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 Angie, LA 70426 | 01/01/96 to 12/31/99 |
| Argil Boone | 61768 Seal Road Angie, LA 70426 | 01/01/96 to 12/31/2000 |

The accompanying notes are an integral part of this statement.

**VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana**

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 |

The accompanying notes are an integral part of this statement.

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

| | <u>Bond Reserve</u> | <u>Bond Depreciation and Contingency</u> | <u>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 | <u>1,215</u> |

The accompanying notes are an integral part of this statement.

Varnado Waterworks District
 Washington Parish Police Jury
 Varnado, Louisiana

Schedule 6

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 1997

| Federal Grantor/ Pass-Through Grantor/ Program Title | CFDA Number | Pass-Through Grantor's No. | Program Amount | Loan Balance at 1/1/97 | Receipts | Repayments | Loan Balance at 12/31/97 |
|---|-------------|----------------------------|----------------|------------------------|----------|------------|--------------------------|
| U. S. Department of Agriculture Rural Utility Service | * 10.418 | 22-059-0720822825 | \$1,396,000 | \$1,082,239 | \$ - | \$35,218 | \$1,047,021 |

* Note: The only federal awards the Varnado Waterworks District has is the USDA Rural Utility Service loans, which the district is repaying.

**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

Immediately.

BRUCE HARRELL & CO.
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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, Louisiana

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 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 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 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.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

Kentwood, Louisiana
March 13, 1998