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SOUTHEAST WATERWORKS DISTRICT NUMBER 2,  
OF THE PARISH OF VERMILION, STATE OF LOUISIANA,  
A COMPONENT UNIT OF THE VERMILION PARISH  
POLICE JURY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1998

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 APR 30 7 1999

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

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR  
ENDED DECEMBER 31, 1998**

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**LANGLINAIS**

**&**

**BROUSSARD**

(A Corporation of Certified Public Accountants)

**Glen P. Langlais, C.P.A.**  
**Michael P. Broussard, C.P.A.**

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**Ken Bonin, C.P.A., M.B.A.**

**Chris Kohlenberg, C.P.A., M.B.A.**

INDEPENDENT AUDITORS' REPORT

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

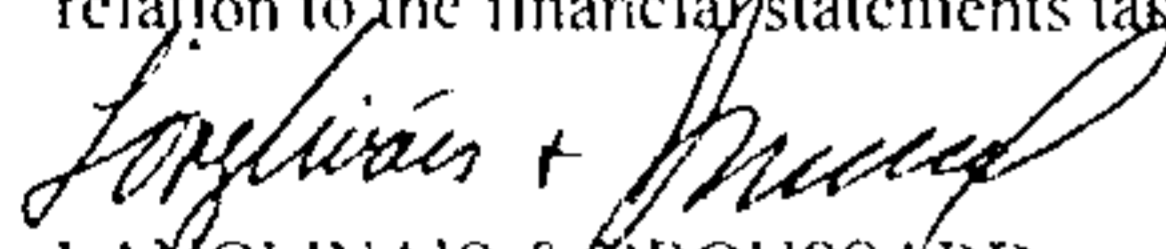
We have audited the accompanying component unit financial statements of the Southeast Waterworks District Number 2, of the Parish of Vermilion (the District), State of Louisiana, a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 1998, as listed in the table 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 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedules of expenses and expenditures of federal awards are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

  
LANGLINAIS & BROUSSARD  
Certified Public Accountants

February 9, 1999

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

**BALANCE SHEET**

**DECEMBER 31, 1998**

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Equivalents	\$ 59,214	\$ 41,550
Investments	81,936	20,000
Accounts Receivable (net)	29,628	26,172
Grants Receivable	18,195	-
Total Current Assets	<u>188,973</u>	<u>87,722</u>
<b>RESTRICTED ASSETS:</b>		
Revenue Bond Sinking Fund Cash	9,650	9,210
Waterworks Reserve Fund Cash	5,846	3,544
Waterworks Contingency Fund Cash	6,709	4,067
Customer Security Deposits Cash	5,261	3,216
Total Restricted Assets	<u>27,466</u>	<u>20,037</u>
<b>FIXED ASSETS:</b>		
Land	17,477	17,477
Buildings	160,000	160,000
Furniture, Fixtures, and Equipment	2,821,458	2,387,732
	<u>2,998,935</u>	<u>2,565,209</u>
Less: Accumulated Depreciation	164,411	106,365
Total Fixed Assets	<u>2,834,524</u>	<u>2,458,844</u>
<b>OTHER ASSETS:</b>		
Bond Issue Costs	23,389	13,771
Organization Costs	1,125	1,625
Total Other Assets	<u>24,514</u>	<u>15,396</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,075,477</u></u>	<u><u>\$ 2,581,999</u></u>

See accountants' report and notes to the financial statements.

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

**BALANCE SHEET**

**DECEMBER 31, 1998**

	<u>1998</u>	<u>1997</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 3,018	\$ 2,714
Retainage Payable	18,195	-
Sales Tax Payable	651	1,122
Payroll Liabilities	1,190	171
Accrued Interest Payable	9,676	1,849
Current Portion of Long-term Debt	10,902	8,316
Total Current Liabilities	<u>43,632</u>	<u>14,172</u>
<b>CURRENT LIABILITIES PAYABLE WITH RESTRICTED ASSETS:</b>		
Customer Security Deposits Liability	<u>3,179</u>	<u>1,179</u>
<b>LONG-TERM LIABILITIES:</b>		
Revenue Bonds Payable	<u>1,095,085</u>	<u>782,529</u>
Total Long-term Liabilities	<u>1,095,085</u>	<u>782,529</u>
<b>TOTAL LIABILITIES</b>	<u>1,141,896</u>	<u>797,880</u>
<b>FUND EQUITY:</b>		
Contributed Capital - Customers	49,826	42,376
Contributed Capital - Federal Grants	1,807,872	1,728,000
Retained Earnings - Unreserved	75,883	13,743
<b>TOTAL FUND EQUITY</b>	<u>1,933,581</u>	<u>1,784,119</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 3,075,477</u>	<u>\$ 2,581,999</u>

See accountants' report and notes to the financial statements.

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

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED  
DECEMBER 31, 1998

	1998	1997
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 254,308	\$ 200,262
Water - Penalties	1,342	26,831
Connection Fees	-	12,595
Total Operating Revenues	255,650	239,688
<b>OPERATING EXPENSES:</b>		
Water Expenses	88,415	91,678
General and Administrative Expenses	109,599	111,689
Total Operating Expenses	198,014	203,367
OPERATING INCOME (LOSS)	57,636	36,321
<b>NONOPERATING INCOME (EXPENSES):</b>		
Interest Income	2,701	2,270
Miscellaneous Income	7,504	1,959
Interest Expense	(41,701)	(35,177)
TOTAL NONOPERATING INCOME (EXPENSES)	(31,496)	(30,948)
NET INCOME	26,140	5,373
Add: Depreciation on Fixed Assets Acquired by Capital Grants	36,000	36,000
INCREASE (DECREASE) IN RETAINED EARNINGS	62,140	41,373
RETAINED EARNINGS, BEGINNING	13,743	(27,630)
RETAINED EARNINGS, ENDING	\$ 75,883	\$ 13,743

See accountants' report and notes to financial statements.

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

<u>STATEMENT OF CASH FLOWS</u>	<u>FOR THE YEAR ENDED DECEMBER 31, 1998</u>	
	1998	1997
<b>CASH FLOWS FROM OPERATING INCOME:</b>		
Operating Income	\$ 57,636	\$ 36,321
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	58,047	56,430
Amortization	1,048	868
(Increase) Decrease in Accounts Receivable	(3,456)	(1,146)
Increase in Grants Receivable	(18,195)	-
Increase (Decrease) in Accounts Payable	304	(5,948)
Increase (Decrease) in Other Accrued Liabilities	18,743	(7,172)
Increase (Decrease) in Customer Security Deposits	2,000	(21)
Total Adjustments	58,491	43,011
Net Cash Provided by Operating Activities	116,127	79,332
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Miscellaneous Income	7,504	1,959
Net Cash Provided by Non-capital Financing Activities	7,504	1,959
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of Fixed Assets	(433,726)	(6,675)
Proceeds from Revenue Bonds	325,000	-
Payments of Bond Issue Costs	(10,167)	-
Principal Payments - Revenue Bonds	(9,858)	(3,155)
Interest Paid	(33,874)	(56,137)
Contributed Capital	123,322	3,610
Net Cash Used by Capital and Related Financing Activities	(39,303)	(62,357)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Investments	(61,936)	(20,000)
Interest Received	2,701	2,270
Net Cash Used by Investing Activities	(59,235)	(17,730)
<b>Net Increase in Cash and Equivalents</b>	25,093	1,204
<b>Cash and Equivalents, Beginning of Year</b>	61,587	60,383
(Including Restricted Cash of \$20,037 and \$29,863 for 1998 and 1997 respectively)		
<b>Cash and Equivalents, End of Year</b>	\$ 86,680	\$ 61,587
(Including Restricted Cash of \$27,466 and \$20,037 for 1998 and 1998 respectively)		

See accountants' report and notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Southeast Waterworks District Number 2, of the Parish of Vermilion, State of Louisiana (the District), which is a component unit of the Vermilion Parish Police Jury, was created under the provisions of Louisiana Revised Statutes (LRS) 33:3811, for the purpose of providing water to the rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury.

The District has been considered a component unit of the Vermilion Parish Police Jury, State of Louisiana, and, accordingly, the financial position and results of operations of the District are reflected in the financial statements included in the annual financial report of the Vermilion Parish Police Jury. The Vermilion Parish Police Jury exercises oversight responsibility with the District; however, the Police Jury does not exercise any control over specific expenditures of the District.

All activities over which the District exercises oversight responsibility have been incorporated to form the District's reporting entity. Oversight responsibility is determined by financial interdependency, selection of governing board, designation of management, accountability for financial matters, and an ability to significantly influence operations.

**A. FUND ACCOUNTING**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of individual funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into a single fund as follows:

**PROPRIETARY FUNDS**

*Proprietary Funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District will not apply FASB Statements and Interpretations issued after November 30, 1989, unless they are adopted by GASB.

**B. DEPOSITS AND INVESTMENTS**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorized the District to invest in obligations of the U. S. Treasury, certificates or other obligations of the United States of America, and time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana.

Investments are stated at cost.

**C. RECEIVABLES**

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



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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

**NOTE 1:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D.      RESTRICTED ASSETS**

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

**E.      FIXED ASSETS AND LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Property, plant, and equipment in the Proprietary Fund of the District are recorded at cost. Property, plant, and equipment donated to these Proprietary Fund operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment are depreciated in the Proprietary Fund using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Utility System Improvements	25-50
Equipment	5

Long-term debt and other obligations of the Proprietary Fund of the District are reported as liabilities. For the Proprietary Fund, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

**F.      FUND EQUITY**

The Proprietary Fund's contributed capital represents equity acquired through capital grants and capital contributed from developers or customers.

**G.      USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The District regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. VACATION AND SICK LEAVE**

Employees of the District are entitled to a one week vacation. The earned days do not vest; therefore, no liability has been recorded for compensated absences in the financial statements.

**I. COMPARATIVE DATA**

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

**NOTE 2: CASH AND INVESTMENTS**

At year end, the District's carrying amount of deposits was \$86,680 and the bank balance was \$125,073. The entire bank balance was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

At year end, the District's investment balances were as follows:

Certificates of Deposit	<u>\$81,936</u>
-------------------------	-----------------

The entire balance was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

**NOTE 3: LONG-TERM DEBT**

The District issues revenue bonds which it pledges income derived from the water system to pay the debt. Revenue bonds outstanding at year end are as follows:

Utility Revenue Bonds dated May 12, 1997; payable in monthly installments of \$3,644 through May 12, 2035; including interest at 4.50%	\$ 780,987
Utility Revenue Bonds dated March 16, 1998; payable in monthly installments of \$1,554 through March 12, 2038; including interest at 4.875%	<u>325,000</u>
	1,105,987
Less: Current Portion	<u>(10,902)</u>
Total Long-term Debt	<u>\$ 1,095,085</u>

**NOTE 4: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES**

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

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

**NOTE 4: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES (Continued)**

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

There is also to be set aside \$183 monthly, into a "Waterworks Reserve Fund", beginning June, 1997, until the sum of \$43,734 has been accumulated.

Funds also required to be set aside into a "Waterworks Depreciation and Contingency Fund" in the amount of \$210 per month beginning June, 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system.

All revenues received in any year, and not required to be paid into any of the afore mentioned funds, are regarded as surplus and may be used for any lawful purposes.

**NOTE 5: CONTRIBUTED CAPITAL**

The changes in the District's contributed capital accounts for the year ended December 31, 1998, were as follows:

	<u>FEDERAL GRANTS</u>	<u>CUSTOMERS</u>
Beginning Balances	\$ 1,728,000	\$ 42,376
Depreciation Closed to Contributed Capital	(36,000)	-
Federal Capital Grants	115,872	-
Customers	<u>-</u>	<u>7,450</u>
Ending Balances	<u>\$ 1,807,872</u>	<u>\$ 49,826</u>

**NOTE 6: DIRECTORS' FEES**

The following is a schedule of directors' fees paid by the District for the year ended December 31, 1998:

David Greco	\$ 900
Nally Simon	1,020
Marty Benoit	1,020
Curnal Cessac	780
J. Gerald Menard	<u>960</u>
Total	<u>\$ 4,680</u>

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

FOR THE YEAR ENDED  
DECEMBER 31, 1998

SCHEDULE OF EXPENSES

	1998	1997
<b>WATER EXPENSES:</b>		
Chemicals	\$ 14,946	\$ 9,062
Meter Installation	780	1,901
Residential Inspections	-	576
Depreciation	58,047	56,430
Supplies	1,631	6,150
Utilities	13,011	17,559
<b>TOTAL WATER EXPENSES</b>	<b>\$ 88,415</b>	<b>\$ 91,678</b>
 <b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>		
Advertising	\$ 185	\$ 1,521
Amortization	1,048	868
Auto and Truck Expenses	1,681	5,750
Bank Charges	15	3
Consulting Services	5,280	4,680
Engineering	315	-
Insurance	12,997	16,971
Legal and Accounting	12,600	10,825
Miscellaneous	1,214	1,072
Office	2,465	3,397
Operations	17,365	10,396
Outside Labor	373	-
Postage	2,115	1,561
Repairs and Maintenance	963	10,500
Salaries	45,148	34,271
Taxes - Payroll	3,565	2,568
Taxes - Sales	-	4,488
Telephone	2,270	2,818
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 109,599</b>	<b>\$ 111,689</b>

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

SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS

FOR THE YEAR ENDED  
DECEMBER 31, 1998

<u>FEDERAL GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
 <b><u>GRANTS:</u></b>		
U.S. Department of Agriculture Water and Waste Loan and Grant Program	10.760	\$ <u>115,872</u>
 <b><u>DIRECT LOANS:</u></b>		
U.S. Department of Agriculture Water and Waste Loan and Grant Program	10.760	\$ <u>1,105,987</u>

**BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards is presented in accordance with generally accepted accounting principles. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS

FOR THE YEAR ENDED  
DECEMBER 31, 1998

**FINANCIAL STATEMENTS:**

Type of Auditors' Report Issued:	Unqualified
Internal Control Over Financial Reporting:	
Material Weaknesses Identified:	None
Reportable Conditions Identified:	None
Noncompliance material to Financial Statements Noted:	None

**FEDERAL AWARDS:**

Internal Control Over Major Awards:	
Material Weaknesses Identified:	None
Reportable Conditions Identified:	None
Type of Auditors' Report Issued on Compliance for Major Programs:	Unqualified
Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of Circular A-133:	None

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Loan and Grant Program

Dollar Threshold Used to Distinguish Between Type A and Type B Programs:	<u>\$115,872</u>
Auditee Qualified as Low Risk Auditee:	No

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

FOR THE YEAR ENDED  
DECEMBER 31, 1998

SCHEDULE OF PRIOR YEAR FINDINGS

**SECTION I: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.**

97-1: Due to the small number of accounting personnel, the District did not have adequate segregation of functions within the accounting system. The prior auditors recommended that the District study the possibility of hiring additional staff. The auditors also recommended that the District address the costs and benefits of the additional hiring.

*Due to the financial constraints on the District, no funds are available to finance the hiring of additional staff at this time.*

97-2: The District was late submitting its audit report to the Legislative Auditor for the year ended December 31, 1997. The late submission was due to a serious illness with the audit manager.

For the current year, no such situation exists.

**SECTION II: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS.**

No findings were reported under this section.

**SECTION III: MANAGEMENT LETTER**

No findings were reported under this section.

**LANGLINAIS**  
**&**  
**BROUSSARD**

(A Corporation of Certified Public Accountants)

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

We have audited the component financial statements of the Southeast Waterworks District Number 2, of the Parish of Vermilion, State of Louisiana (the District), a component unit of the Vermilion Parish Police Jury as of and for the year ended December 31, 1998, and have issued our report thereon dated February 9, 1999. 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**

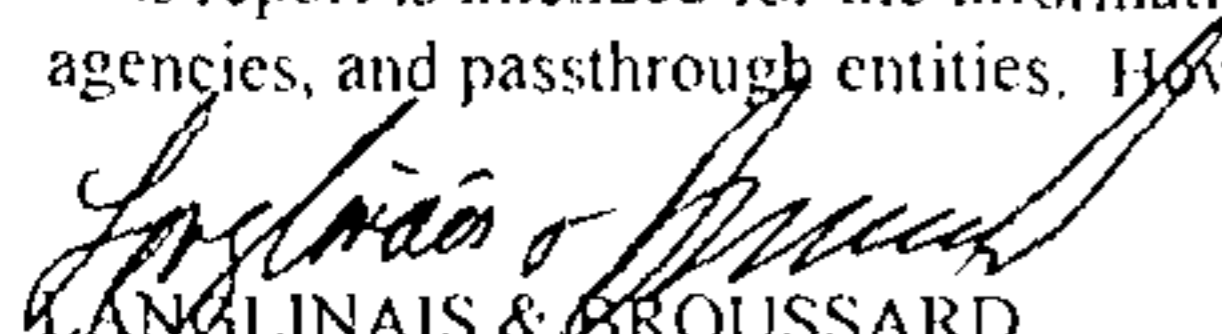
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal controls and their operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the District, the Legislative Auditor of the State of Louisiana, federal awarding agencies, and passthrough entities. However, this report is a matter of public record and its distribution is not limited.

  
LANGLINAIS & BROUSSARD  
Certified Public Accountants

February 9, 1999



**LANGLINAIS**

**&**

**BROUSSARD**

(A Corporation of Certified Public Accountants)

**Glen P. Langlinal, C.P.A.**  
**Michael P. Broussard, C.P.A.**

**Gayle Falcon, C.P.A.**

**Patrick M. Guldry, C.P.A.**

**Holly M. Rabalais, C.P.A.**

**Chip Centrell, C.P.A.**

**Branda Dubro, C.P.A.**

**Ken Bonin, C.P.A., M.B.A.**

**Chris Kohlenberg, C.P.A., M.B.A.**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE**  
**TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL**  
**OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**COMPLIANCE**

We have audited the compliance of the Southeast Waterworks District Number 2, of the Parish of Vermilion, State of Louisiana (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 and the types of compliance requirements described in the U.S. Department of Agriculture, Office of Inspector General (USDA-OIG) Rural Utilities Service Bulletin 1780-30, Water Programs Audit Guide and Compliance Supplement, that are applicable to each of its major federal programs for the year ended December 31, 1998. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based upon our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and USDA-OIG Rural Utilities Service Bulletin 1780-30. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

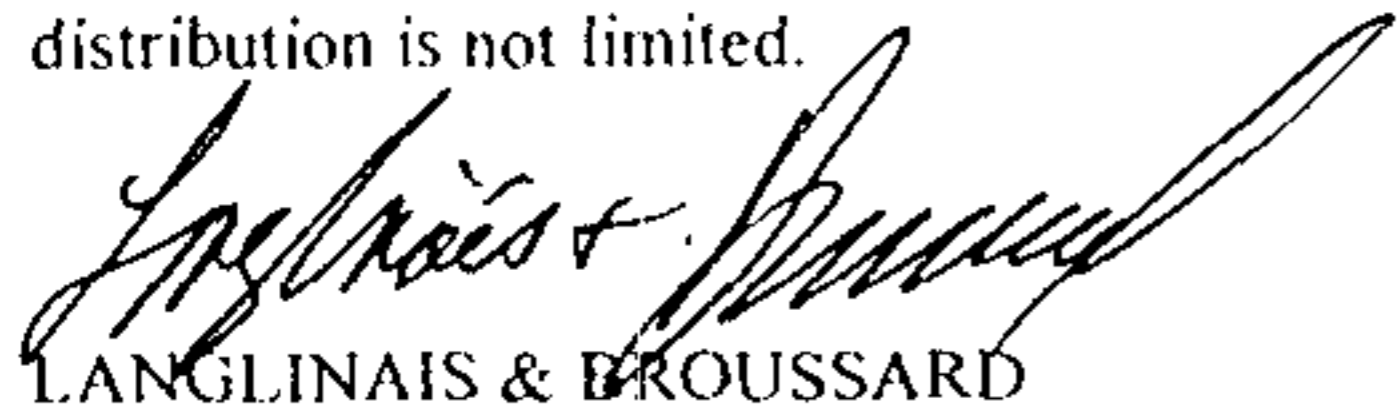
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

**INTERNAL CONTROL OVER COMPLIANCE**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the District's management and Board of Commissioners, the State of Louisiana Legislative Auditor, and the USDA office of Rural Development. However, this report is a matter of public record and its distribution is not limited.



LANGLINAIS & BROUSSARD  
Certified Public Accountants

February 9, 1999

# LANGLINAIS

&

# BROUSSARD

(A Corporation of Certified Public Accountants)

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

In planning and performing our audit of the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana (the District), for the year ended December 31, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

## 1. SIGNATURES ON CHECKS

We noted, during the testing of disbursements, that a number of checks were sent to vendors with only one signature present on those checks. Current District policy requires two signatures on all checks. This issue resulted in the District facing a variety of NSF problems.

The District should take care to insure that all checks have two signatures. This effort will not only insure documentation of approval of expenditures, it will also help avoid the NSF problems that the District has already faced.

## 2. CODING ERRORS

During testing of various accounts, we noted that many transactions were not recorded properly in the general ledger. Many of these transactions were coded to accounts that had nothing to do with the nature of the transactions. This created a problem of many expenses and revenues being misclassified.

Care should be taken to properly classify all transactions in the general ledger. This will lessen the time required to go back and correct the coding errors.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 1998, financial statements, and this report does not affect our report on those financial statements dated February 9, 1999. We have not considered the internal control since the date of our report.

This report is intended for the information of the District, the Legislative Auditor of the State of Louisiana, federal awarding agencies, and passthrough entities. However, this report is a matter of public record and its distribution is not limited.

  
LANGLINAIS & BROUSSARD  
Certified Public Accountants

February 9, 1999

*Commissioners*

*J. Gerald Menard - Chairman  
Marty Benoit - Vice Chairman  
Nally Simon - Secretary/Treasurer  
David Greco - Member  
Curnal Cessac - Member*

**Southeast Waterworks District No. 2**  
of Vermilion Parish  
417 Trahan Street  
Abbeville, Louisiana 70510-8433



*Plant Manager  
RICKY SIMON*

*Office Manager*

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March 12, 1999

Legislative Auditor  
State of Louisiana  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

In response to the comments in the Management Letter prepared by the independent auditors, which is included in the financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana (The District), as of and for the year ended December 31, 1998, the following action has been taken to correct the comment listed:

**Finding - Signatures on Checks**

The District issued a number of checks with only one signature. Current District policy requires two signatures on all checks.

The District will take care to insure that all checks are issued with two signatures as required


**Finding - Signatures on Checks**

The District made numerous coding errors in coding transactions in the general ledger.

The District will take care to insure that all transactions are recorded properly.

I hope the above noted action will correct the problems we have had in the past.

Sincerely,

  
Ricky Simon  
Plant Manager