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VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
VARNADO, LOUISIANA

ANNUAL FINANCIAL REPORT
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 JUN 02 1999

**Varnado Waterworks District
Washington Parish Police Jury
Varnado, Louisiana**

Component Unit Financial Statements
Year Ended December 31, 1998
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 Water Works District, Louisiana, 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 Varnado Water Works District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Varnado Water Works District, Louisiana, has included such disclosures in Note 12. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Varnado Water Works District, Louisiana's disclosures with respect to the year 2000 issue made in Note 12. Further, we do not provide assurance that the Varnado Water Works District, Louisiana, is or will be successful in whole or in part, or that parties with which the Varnado Water Works District, Louisiana, does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Varnado Water Works District, Louisiana, as of December 31, 1998, and the results of its operations and cash flows 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 April 23, 1999 on our consideration of the Varnado Waterworks District, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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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 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 Water Works District. 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
April 23, 1999

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, 1998

ASSETS

Current Assets:

Cash	\$ 318,035
Investments at Cost	409,443
Accounts Receivable	43,330
Due From Other Governments	<u>6,056</u>
Total Current Assets	<u>776,864</u>

Restricted Assets:

Customer Deposits - Cash	15,583
Bond Reserve Account - Investment	88,918
Depreciation and Contingency Account - Investment	<u>103,655</u>
Total Restricted Assets	<u>208,156</u>

Property, Plant and Equipment:

Land	31,262
Utility Plant, in Service	<u>3,170,645</u>
Total Property, Plant and Equipment	3,201,907
Less: Accumulated Depreciation	<u>(1,424,395)</u>
Net Property, Plant and Equipment	<u>1,777,512</u>
Total Assets	<u>\$ 2,762,532</u>

(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, 1998

LIABILITIES AND FUND EQUITY

Liabilities:

Current Liabilities (Payable From Current Assets):

Accounts Payable	\$ 6,888
Sales Tax Payable	601
Payroll Taxes Payable	1,797
Retainage Payable	6,358
Due to Other Governments	105
Revenue Bonds Payable - Current	<u>34,411</u>

Total Current Liabilities (Payable From Current Assets) 50,160

Current Liabilities (Payable From Restricted Assets)

Customer Deposits	<u>23,570</u>
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Long-Term Liabilities:

Revenue Bonds Payable - Long-Term	<u>974,598</u>
-----------------------------------	----------------

Total Liabilities 1,048,328

Fund Equity:

Memberships	41,500
Contributed Capital	1,428,178
Less Accumulated Amortization	<u>(787,015)</u>

Net Contributed Capital 682,663

Retained Earnings:

Reserved for RUS Bond Interest and Redemption	88,918
Reserved for RUS Bond Depreciation and Contingency	103,655
Unreserved	<u>838,968</u>

Total Retained Earnings 1,031,541

Total Fund Equity 1,714,204

Total Liabilities and Fund Equity \$ 2,762,532

(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, 1998

OPERATING REVENUES

Charges for Services:

Water Sales	\$ 340,983
Installations	13,250
Penalties	8,096
Billing Fees	66,851
Reconnect Fees	2,710
Other Revenues	<u>1,314</u>

Total Operating Revenues 433,204

OPERATING EXPENSES

Salaries	80,408
Truck Expense	688
Office Expense	7,557
Maintenance Supplies	18,092
Utilities	38,717
Plant Maintenance	2,438
Repairs and Installations	5,483
Director Fees	5,500
Travel	4,254
Telephone	3,565
Insurance	17,435
Accounting Fees	6,105
Conventions	560
Legal Fees	615
Membership Dues	150
Rent Expense	-
NSF Checks	231
Mowing	1,855
Advertising	336
Bank Charges	50
Miscellaneous	-
Depreciation Expense	110,157
Payroll Taxes	<u>7,152</u>

Total Operating Expense 311,348

Net Operating Income 121,856

(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, 1998

NON-OPERATING REVENUE (EXPENSES):

Interest Income	\$ 51,972
Bond Interest Expense	<u>(57,988)</u>
Total Non-Operating Revenue (Expenses)	<u>(6,016)</u>
Net Income (Loss)	115,840
Unreserved Retained Earnings, Beginning of Year	700,144
Add: Amortization of Contributions	47,606
Less: (Increase) in Reserve for Revenue Bond Retirement	(11,627)
(Increase) in Reserve for Revenue Bond Contingency	<u>(12,995)</u>
Unreserved Retained Earnings, End of Year	<u>\$ 838,968</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, 1998

Cash flows from operating activities:		
Operating Income		\$ 121,856
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	\$ 110,157	
Changes in Accounts Receivable	(14,265)	
Changes in Due From Other Governments	(924)	
Changes in Accounts Payable and Accrued Expenses	1,799	
Changes in Retainage Payable	6,358	
Changes in Due to Other Governments	35	
Changes in Current Liabilities Payable from Restricted Assets	<u>1,690</u>	
Total adjustments		<u>104,850</u>
Net cash provided by operating activities		226,706
Cash flows from capital and related financing activities:		
Retirement of Revenue Bonds	(38,012)	
Interest Expense	(57,988)	
Capital Additions	<u>(93,674)</u>	
Net cash used by capital and related financing activities		(189,674)
Cash flows from investing activities:		
Interest Income	51,972	
Investment Purchases	<u>(67,839)</u>	
Net cash provided by investing activities		<u>(15,867)</u>
Net cash increase (decrease) for year		21,165
Cash at beginning of year		<u>312,453</u>
Cash at end of year		<u>\$ 333,618</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, 1998

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 1,274 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

The district is a component unit of the Washington Parish Police Jury, the financial reporting entity. The police jury is financially accountable for the district because it appoints a voting majority of the board and has the ability to impose its will on them.

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.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

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 time deposits. 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, or time deposits with state banks organized under Louisiana law and any other state of the United States, or under the laws of the United States.

F. INVESTMENTS

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the district's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- 1) The district uses the quoted market prices to estimate the fair value of the investments.
- 2) None of the investments are reported at amortized cost.
- 3) The district has investments in one investment pool. The investment pool is LAMP, and the fair value of the position in the pool is the same as the value of the pool shares.
- 4) There is no involuntary participation in an external investment pool.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

G. 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.

H. 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.

I. 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.

J. 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.

K. COMPENSATED ABSENCES

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

Employees receive 2 weeks of paid vacation after being employed for 1 to 5 years, and 3 weeks of paid vacation for 6 years and over. Employees are not allowed to carry over vacation from one year to the next.

Employees accrue ½ day per month of employment for sick leave up to a maximum of 45 days.

L. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

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.

2. CASH AND CASH EQUIVALENTS

At December 31, 1998, the district has cash and cash equivalents (book balances) totaling \$333,618, as follows:

Demand Deposits	\$ 72,765
Interest-bearing Demand Deposits	15,583
Time Deposits	<u>245,270</u>
Total	<u><u>\$333,618</u></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, 1998, the district has \$335,668 in deposits (collected bank balances). These deposits are 100% secured from risk by federal deposit insurance.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

3. INVESTMENTS

At December 31, 1998, the district has investments totaling \$602,016 as follows:

	Book Value	Market Value
Government Money Market	\$268,257	\$268,257
LAMP	20,153	20,153
FHLMC - Edward D Jones	302,426	301,144
FHLMC - Prudential	11,180	14,300
Total	\$602,016	\$603,854

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 150.164.

No adjustment has been made to record the difference between book value and fair market value. The district is of the opinion that at the present time, this difference is immaterial to the financial statements. If the district determines that the difference becomes material in future years, the proper adjustments will be made.

4. RECEIVABLES

The following is a summary of accounts receivables at December 31, 1998:

Current	\$ 38,975
31-60 Days	5,035
61-90 Days	858
Over 90 Days	430
Total	45,298
Less: Allowance for Bad Debts	1,968
Accounts Receivable, Net	\$ 43,330

5. CONSTRUCTION IN PROGRESS

As of December 31, 1998, the district had no construction in progress.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

6. FIXED ASSETS

A summary of fixed assets at December 31, 1998, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Phase I (1979)					
Old Water System	25	\$ 53,497	\$ 41,729	\$ 11,768	\$ 2,140
Land & Right of Way		5,597	-	5,597	-
Water Distribution System	30	569,585	370,228	199,357	18,986
Water Well	30	65,467	42,550	22,917	2,182
Phase II (1980)					
Water Distribution System	30	212,668	131,146	81,522	7,089
Water Well	30	87,721	54,094	33,627	2,924
Well Site & Pump Station	30	21,885	13,503	8,382	730
Improvements	30	12,433	2,268	10,165	414
Phase III (1984)					
Water Distribution System	30	294,633	146,766	147,867	9,821
Water Well	30	107,154	53,580	53,574	3,572
Pump Station Controls	30	248,997	124,500	124,497	8,300
Elevated Storage Tank	30	238,169	119,085	119,084	7,939
Land & Right of Way		13,225	-	13,225	-
Phase IV (1989)					
Land		2,000	-	2,000	-
Water Distribution System	30	897,130	284,097	613,033	29,904
Improvements	30	200,266	6,184	194,082	4,092
Chlorinator	5	4,883	2,440	2,443	976
Fence	7	4,328	103	4,225	103
Office Building Land		10,440	-	10,440	-
Office Building	30	111,045	15,659	95,386	3,702
Office Equipment	5	6,870	5,691	1,179	1,374
Equipment	7	12,294	1,764	10,530	1,585
Vehicle	5	21,620	9,008	12,612	4,324
Totals		<u>\$3,201,907</u>	<u>\$ 1,424,395</u>	<u>\$ 1,777,512</u>	<u>\$ 110,157</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
As of and for the Year Ended December 31, 1998
(Continued)

7. LONG-TERM DEBT

The following is a summary of bond transactions of the Varnado Waterworks District for the year ended December 31, 1998:

	1977 RUS Utility Revenue	1979 RUS Utility Revenue	1988 RUS Utility Revenue	Total
Bonds Payable January 1, 1998	\$ 204,857	\$ 8,472	\$ 833,692	\$ 1,047,021
Bonds Retired	(14,494)	(6,061)	(17,457)	(38,012)
Bonds Payable December 31, 1998	<u>\$ 190,363</u>	<u>\$ 2,411</u>	<u>\$ 816,235</u>	<u>\$ 1,009,009</u>

Bonds Payable at December 31, 1998, are comprised of the following individual Issues:

	Current Amount 12/31/98	Long-Term Amount 12/31/98	Total Principal Balance 12/31/98
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%	\$ 14,500	\$ 175,863	\$ 190,363
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%	2,411	-	2,411
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%	17,500	798,735	816,235
	<u>\$ 34,411</u>	<u>\$ 974,598</u>	<u>\$ 1,009,009</u>

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 1998, including interest payments of \$553,016 are as follows:

Year Ending December 31,	1977 RUS Revenue	1979 RUS Revenue	1988 RUS Revenue	Total
1999	\$ 26,986	\$ 2,604	\$ 62,765	\$ 92,355
2000	26,986	-	62,765	89,751
2001	26,986	-	62,765	89,751
2002	26,986	-	62,765	89,751
2003	26,986	-	62,765	89,751
2004-2008	101,196	-	313,825	415,021
2009-2013	-	-	313,825	313,825
2014-2018	-	-	313,825	313,825
2029-2033	-	-	67,995	67,995
	<u>\$ 236,126</u>	<u>\$ 2,604</u>	<u>\$ 1,323,295</u>	<u>\$ 1,562,025</u>

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.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

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, 1998.

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, 1998.

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 received \$48,525 from their bonding company in 1998 as a settlement of the prior year losses. The district filed suits against the contract manager for recovery of the remaining losses.

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

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998
(Continued)

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.

12. Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Varnado Water Works District, Louisiana's operations as early as fiscal year 1999.

The Varnado Water Works District, Louisiana, has not inventoried computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Varnado Water Works District, Louisiana, operations. It is unknown as of December 31, 1998, what effects, if any, failing to remediate any such systems will have upon the Varnado Water Works District, Louisiana, operations and financial reporting.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Varnado Water Works District, Louisiana, is or will be Year 2000 ready, that the Varnado Water Works District, Louisiana's remediation efforts will be successful in whole or in part, or that parties with whom the Varnado Water Works District, Louisiana, does business will be year 2000 ready.

SUPPLEMENTAL INFORMATION

**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, 1998 and 1997**

ASSETS

	1998	1997
Current Assets:		
Cash	\$ 318,035	\$ 291,328
Investments at Cost	409,443	366,630
Accounts Receivable	43,330	29,065
Due From Other Governments	6,056	5,132
Total Current Assets	776,864	692,155
Restricted Assets:		
Customer Deposits - Cash	15,583	21,125
Bond Reserve Account -		
Cash	-	-
Investment	88,918	77,098
Depreciation and Contingency Account -		
Cash	-	-
Investment	103,655	90,449
Total Restricted Assets	208,156	188,672
Property, Plant and Equipment:		
Land	31,262	31,262
Utility Plant, in Service	3,170,645	3,076,971
Total Property, Plant and Equipment	3,201,907	3,108,233
Less: Accumulated Depreciation	(1,424,395)	(1,314,238)
Net Property, Plant and Equipment	1,777,512	1,793,995
Total Assets	\$ 2,762,532	\$ 2,674,822

(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)**

**Comparative Balance Sheet
December 31, 1998 and 1997
(Continued)**

LIABILITIES AND FUND EQUITY

Liabilities:

Current Liabilities (Payable From Current Assets):

	<u>1998</u>	<u>1997</u>
Accounts Payable	\$ 6,888	\$ 5,984
Sales Tax Payable	601	607
Payroll Taxes Payable	1,797	1,300
Retainage Payable	6,358	-
Due to Other Governments	105	70
Revenue Bonds Payable - Current	<u>34,411</u>	<u>35,500</u>

Total Current Liabilities (Payable From Current Assets)	<u>50,160</u>	<u>43,461</u>
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Current Liabilities (Payable From Restricted Assets)

Customer Deposits	<u>23,570</u>	<u>21,880</u>
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Long-Term Liabilities:

Revenue Bonds Payable - Long-Term	<u>974,598</u>	<u>1,011,521</u>
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Total Liabilities	<u>1,048,328</u>	<u>1,076,862</u>
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Fund Equity:

Memberships	41,500	41,500
Contributed Capital	1,428,178	1,428,178
Less Accumulated Amortization	<u>(787,015)</u>	<u>(739,409)</u>

Net Contributed Capital	<u>682,663</u>	<u>730,269</u>
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Retained Earnings:

Reserved for RUS Bond Interest and Redemption	88,918	77,098
Reserved for RUS Bond Depreciation and Contingency	103,655	90,449
Unreserved	<u>838,968</u>	<u>700,144</u>

Total Retained Earnings	<u>1,031,541</u>	<u>867,691</u>
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Total Fund Equity	<u>1,714,204</u>	<u>1,597,960</u>
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Total Liabilities and Fund Equity	<u>\$ 2,762,532</u>	<u>\$ 2,674,822</u>
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(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, 1998
and Actual For the Year Ended December 31, 1997

OPERATING REVENUES	Budget	Actual	Variance- Favorable (Unfavorable)	1997 Actual
Charges for Services:				
Water Sales	\$ 329,000	\$ 340,983	\$ 11,983	\$ 313,953
Installations	13,000	13,250	250	11,250
Penalties	8,000	8,096	96	7,482
Billing Fees	67,000	66,851	(149)	66,015
Reconnect Fees	2,800	2,710	(90)	3,145
Other Revenues	1,300	1,314	14	1,246
	421,100	433,204	12,104	403,091
 OPERATING EXPENSES				
Salaries	80,000	80,408	(408)	75,530
Truck Expense	1,000	688	312	1,542
Office Expense	8,000	7,557	443	5,396
Maintenance Supplies	20,000	18,092	1,908	15,885
Utilities	40,500	38,717	1,783	43,173
Plant Maintenance	3,000	2,438	562	2,080
Repairs and Installations	14,000	5,483	8,517	21,806
Director Fees	5,100	5,500	(400)	5,850
Travel	4,000	4,254	(254)	3,478
Telephone	3,500	3,565	(65)	3,338
Insurance	18,000	17,435	565	15,183
Accounting Fees	6,500	6,105	395	5,782
Conventions	400	560	(160)	495
Legal Fees	-	615	(615)	-
Membership Dues	150	150	-	180
Rent Expense	-	-	-	8
NSF Checks	200	231	(31)	27
Mowing	2,000	1,855	145	1,303
Advertising	400	336	64	315
Bank Charges	50	50	-	95
Miscellaneous	100	-	100	94
Depreciation Expense	105,500	110,157	(4,657)	106,104
Payroll Taxes	7,200	7,152	48	6,479
	319,600	311,348	8,252	314,143
 Net Operating Income	101,500	121,856	20,356	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

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, 1998
and Actual For the Year Ended December 31, 1997

	Budget	Actual	Variance- Favorable (Unfavorable)	1997 Actual
NON-OPERATING REVENUE (EXPENSES):				
Interest Income	\$ 40,000	\$ 51,972	\$ 11,972	\$ 39,093
Bond Interest Expense	(71,750)	(57,988)	13,762	(60,782)
Insurance Settlement	-	-	-	48,525
	(31,750)	(6,016)	25,734	26,836
Net Income (Loss)	\$ 69,750	115,840	\$ 46,090	115,784
Unreserved Retained Earnings				
Beginning of Year		700,144		557,101
Add: Amortization of Contributions		47,606		47,605
Less: (Increase) in Reserve for Revenue Bond Retirement		(11,627)		(9,682)
(Increase) in Reserve for Revenue Bond Contingency		(12,995)		(10,664)
Unreserved Retained Earnings, End of Year		\$ 838,968		\$ 700,144

(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, 1998**

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, Commissioner	\$700
T. A. Magee, Commissioner	700
Wayne Seal, Commissioner	700
Freddie Jefferrson, Vice-President	650
Melodysee Peters, Commissioner	650
Berkley Thomas, President	700
Ancel Williams, Commissioner	700
Argil Boone, Commissioner	700
Total Compensation Paid	\$5,500

Board of Commissioners	Address	Term of Office
Homer Seal,	62823 Main St. Angie, LA 70426	01/01/96 to 12/31/2000
T. A. Magee	20551 Windy Ridge Rd. Bogalusa, LA 70427	01/01/97 to 12/31/01
Wayne Seal	61269 Dollar Road Angie, LA 70426	01/01/96 to 12/31/98
Freddie Jefferrson	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, 1998**

Insurance Company	Coverage	Effective Date	Expiration Date
Western Surety Bond # 18216102	Position Fidelity Schedule	11/16/98	11/16/99
	Bonds, Coverage for 3 Board Members for \$100,000 and \$25,000 for Office Manager and \$25,000 for Clerk	11/16/97	11/16/98
Hartford Insurance Company Police # 953324908	Boiler & Machinery Policy,	02/28/98	02/28/99
	Blanket Coverage of \$300,000 for 5 locations, Deductible of \$1,000, Expecting Expenses of \$25,000	02/28/97	02/28/98
Titan Insurance Company Policy # 98-HP-02337	General Liability of	02/28/98	02/28/99
	\$1,000,000 Combined Single Limit	02/28/97	02/28/98
Titan Insurance Company Policy # 98-HP-02337	Public Officials Liability	02/28/98	02/28/99
	Policy Coverage of \$1,000,000 for Any One Claim with a Deductible of \$2,500 for each claimant with a \$7,500 Maximum	02/28/97	02/28/98
Titan Insurance Company Policy # 98-HP-02337	Commercial Property Package	02/28/98	02/28/99
	\$85,000 Building Limit \$20,000 Personal Property	02/28/97	02/28/98
Titan Indemnity Company Policy # 98-HP-02337	Business Auto \$1,000,000/	02/28/98	02/28/99
	\$1,000,000/ \$1,000,000	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, 1998

	<u>Bond Reserve</u>	<u>Bond Depreciation and Contingency</u>	<u>Total</u>
Cash Balance, January 1, 1998	\$77,098	\$90,449	\$167,547
Cash Receipts:			
Transfers From Operating Account	4,800	4,776	9,576
Interest Earned	7,020	8,430	15,450
Cash Disbursements	-	-	-
Cash Balance, December 31, 1998	<u>\$88,918</u>	<u>\$103,655</u>	<u>\$192,573</u>

SCHEDULE OF WATER CUSTOMERS

As of December 31, 1998, the district had the following number of customers.

Water-Residential	1,245
Water-Commercial	24
Water-School	4
Water-Prison	1
Total Water Customers	<u>1,274</u>

The accompanying notes are an integral part of this statement.

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

Schedule 6

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 1998**

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number 97-1:

Finding Incurred

December, 1997

Description of Finding

At 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 Taken

Yes

Reference Number 97-2:

Finding Incurred

December, 1997

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 Taken

Yes

Section II - Management Letter

No Section II Findings.

VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH POLICE JURY
Varnado, Louisiana

Schedule 7

Corrective Action Plan for
Current Year Audit Findings
For the Year Ended December 31, 1998

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 98-1

Description of Finding:

It was noted within Footnote 12 of the *Notes to the Financial Statements*, that the Varnado Water Works District has not inventoried computer systems and other electronic equipment that may be affected by the year 2000 issue. It was also noted that management of the Varnado Water Works District cannot assure that parties with which the Varnado Water Works District does business will be year 2000 ready.

Corrective Action Planned:

The Varnado Water Works District will maintain contact with the agency processing their accounting data, to insure that systems and programs are year 2000 compliant.

Name of Contact Person:

Mary Thigpen, Manager
Varnado, LA

Anticipated Completion Date:

We will check with agencies immediately and throughout the remainder of the year to determine year 2000 compliance for systems and programs that process financial and management data of the Varnado Water Works District.

Section II - Management Letter

No Section II Findings.

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
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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 Water Works District, as of and for the year ended December 31, 1998, and have issued our report thereon dated April 23, 1999, which was qualified because insufficient audit evidence exists to support the Varnado Water Works District, Louisiana's disclosure with respect to the year 2000 issue. Except as discussed in the preceding sentence, we have conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Compliance

As part of obtaining reasonable assurance about whether the Varnado Water Works District 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 in 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 98-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Varnado Waterworks 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. 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
April 23, 1999