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JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO. 1
Jennings, Louisiana

General Purpose Financial Statements
And Independent Auditor's Report
As of and for the Year Ended December 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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: 7-28-07

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO. 1
Jennings, Louisiana

General Purpose Financial Statements
And Independent Auditor's Report
As of and for the Year Ended December 31, 2003

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Mike B. Gillespie, CPA

IA (Professional Accounting) Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board Member of the
Jefferson Davis Parish
Water & Sewer Commission No. 1
Lake Arthur, Louisiana

I have audited the accompanying general purpose financial statements of the Jefferson Davis Parish Water & Sewer Commission No. 1 (Commission), as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audits in accordance with accepted auditing standards generally accepted in the United States of America 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 I plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 8, 2004, on my consideration of the Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audits were performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Commission. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-113, *audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the general purpose financial statements of the Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Mike B. Gillespie, CPA, ATAC

Jennings, Louisiana
June 8, 2004

JEFFERSON DAVIS PARISH WATER & SEWER COMMISSION NO. 1
PROPRIETARY FUND - ENTERPRISE FUND
(All Fund Types and Account Groups)
BALANCE SHEETS
As of December 31,

	2001	2000
ASSETS		
Current assets:		
Cash and equivalents	-	-
Investments - certificates of deposit	9,551	46,474
Accrued interest receivable	176	187
Accounts receivable	34,577	24,788
Due from other governments - USDA loans	-	11,483
Prepaid expenses	1,356	1,079
Total current assets	45,659	84,931
Restricted assets:		
Cash and equivalents	154,961	95,414
Investments - certificates of deposit	46,862	6,388
Total restricted assets	201,823	101,802
Deferred charges:		
Loss costs, net of amortization	54,360	56,848
Fixed assets:		
Land	15,384	15,384
Plant, systems and equipment	3,687,334	3,495,423
Accumulated depreciation	(254,493)	(256,381)
Construction in progress	3,271,666	37,736
Total fixed assets	6,820,351	3,692,262
TOTAL ASSETS	7,341,890	5,645,815
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	39,428	71,664
Contracts payable	312,876	11,448
Salaries, payroll and other taxes payable	1,956	3,669
Accrued interest payable	50,276	1,758
Due to other governments	4,500	4,500
Current portion principal bonds payable	41,588	31,949
Total current liabilities	453,174	124,988
Current liabilities payable from restricted assets:		
Customer deposits	95,674	95,115
Total current liabilities payable from restricted assets	95,674	95,115
Noncurrent liabilities:		
Revenue bonds payable, net of current portion	4,715,826	3,897,069
Total noncurrent liabilities	4,715,826	3,897,069
Total liabilities	9,244,774	7,817,172
Fixed equity (deficit):		
Contributed capital:		
Federal government	1,447,388	1,447,388
Intergovernmental	195,631	195,631
Total contributed capital	1,643,019	1,643,019
Retained earnings (deficit):		
Unreserved-unappropriated - deficit accumulated	(182,341)	(82,819)
Total retained earnings (deficit)	(182,341)	(82,819)
Total fixed equity	1,460,678	1,560,200
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	7,341,890	5,645,815

The accompanying notes are an integral part of this statement.

JEFFERSON DAVIS PARISH WATER & SEWER COMMISSION NO. 1
PROPRIETARY FUND-ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS (DEFICIT)
For the Year Ended December 31,

	2001	2000
OPERATING REVENUES:		
Water sales	\$ 296,879	\$ 207,798
Customer penalties	1,891	1,887
Tap and other connection fees	4,873	6,039
Other income	1,298	934
Total operating revenues	<u>304,941</u>	<u>216,658</u>
EXPENSES:		
Solutions and related benefits (net of amounts capitalized of \$26,660 and \$11,990)		
Salaries	71,740	72,460
Payroll taxes	9,480	7,211
Workers compensation insurance	3,759	5,375
Board per diem payments	2,120	9,880
Operating services:		
Advertising	776	3,689
Bank charges	-	318
Copyier lease	66	1,064
Software maintenance	2,147	1,558
Data and subscriptions	268	605
Insurance general	5,843	5,240
Licenses and fees	48	178
Miscellaneous expense	882	1,655
Outside labor	1,868	-
Professional fee	15,873	8,623
Penalties	19	184
Postage	3,234	2,977
Printing/reprints	134	8,833
Seminars	211	-
Telephone	6,034	3,344
Travel- lodging, mileage & meals	1,431	-
Utilities	18,729	17,253
Materials, supplies and repairs:		
Fuel	1,664	-
Office expense	5,679	3,438
Repairs and maintenance	14,278	16,722
Supplies and chemicals	30,685	24,877
Depreciation-expired	58,201	61,698
Total operating expenses	<u>344,893</u>	<u>280,111</u>
OPERATING INCOME (LOSS)	<u>60,048</u>	<u>36,547</u>
NON-OPERATING REVENUES (EXPENSES):		
Other non-operating revenue	298	78
Interest income	1,864	1,248
Interest expense (net of amounts capitalized of \$72,199 and \$41,263)	(58,213)	(25,593)
Amortization of bond issue costs	(1,788)	(312)
Total non-operating revenues (expenses)	<u>(57,839)</u>	<u>(24,579)</u>
NET INCOME (LOSS)	<u>(2,791)</u>	<u>11,968</u>
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	<u>(61,015)</u>	<u>(4,732)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (63,806)</u>	<u>\$ 7,236</u>

The accompanying notes are an integral part of this statement.

JEFFERSON DAVIS PARISH WATER & SEWER COMMISSION NO. 1
PROPRIETARY FUND - ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
For the Year Ended December 31,

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 9,861	\$ (33,473)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	98,311	61,808
Net changes in assets and liabilities:		
Decrease (increase) in receivables	3,748	62,236
Decrease (increase) in prepaid expenses	33	(1,139)
Increase (decrease) in accounts and contracts payable	176,899	(256,897)
Increase (decrease) in salaries, payroll and other taxes payable	(104)	(888)
Increase (decrease) in customer deposits payable	13,919	41,560
Increase (decrease) in accrued liabilities	-	(22)
Net cash provided (used) by operating activities	<u>478,899</u>	<u>(108,155)</u>
Cash flows from capital and related financing activities:		
Proceeds from revenue bonds	4,821,260	-
Principal payments on revenue bonds	(1,973,910)	(18,925)
Interest paid on revenue bonds and construction debt	(74,262)	(86,546)
Construction and equipment purchases	(5,136,072)	(708,282)
Land acquisition costs	-	(1,888)
Contributed capital- capital grants	-	214,180
Cash received from merger of other districts	-	121,240
Net cash provided (used) by capital and related financing activities	<u>(219,881)</u>	<u>211,699</u>
Cash flows from investing activities:		
Interest income received on investments	1,873	1,689
Proceeds from sale of investments	43,225	-
Purchase of investments	(61,620)	(56,080)
Other	250	25
Net cash provided (used) by investing activities	<u>(12,272)</u>	<u>(14,326)</u>
Net increase (decrease) in cash and cash equivalents	<u>88,545</u>	<u>39,128</u>
Cash and cash equivalents at beginning of year	<u>98,416</u>	<u>37,288</u>
Cash and cash equivalents at end of year	<u>\$ 186,961</u>	<u>\$ 96,416</u>
Cash and cash equivalents at end of year consist of:		
Unrestricted cash	\$ -	\$ -
Restricted cash	186,961	96,416
Total	<u>\$ 186,961</u>	<u>\$ 96,416</u>

The accompanying notes are an integral part of this statement.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

INTRODUCTION

The Water and Sewer Commission No. 1 of the Parish of Jefferson Davis (Commission) was created by the Jefferson Davis Parish Police Jury pursuant to (LSA-RS 33:3811) in 1999. The Commission has the power and authority, within its boundaries, to establish, acquire, construct, improve, critical and maintain a waterworks system. The Commission is a subdivision of the State of Louisiana and may issue bonds and levy taxes in accordance with Article 9, Section 30.

Under the provision of LSA-RS 33:8812, the Commission shall be governed and controlled by five commissioners who shall be the governing authority of the district. These commissioners must be a resident of and own at least the five hundred dollars worth of real estate in the district, or they must be the representative of some corporation owning at least five hundred dollars in real estate in the district. These commissioners are appointed by the Jefferson Davis Police Jury. All commissioners shall serve at the pleasure of the authority which appointed them.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying general purpose financial statements 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, for reporting purposes, the Jefferson Davis Parish Police Jury is the financial reporting entity for Jefferson Davis 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.

GASB Statement No. 14 established criteria for determining which component units should be considered part of the Jefferson Davis 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:

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

1. *Appointing a voting majority of an organization's governing body, and*
 - a. *The ability of the police jury to impose its will on that organization and/or*
 - b. *The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.*
2. *Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.*
3. *Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.*

Because the police jury appoints a voting majority of the board and has the ability to impose its will on that organization, the commission was determined to be a component unit of the Jefferson Davis Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the commission and do not present information on the police jury, the general government services provided by that governmental unit, or for other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Jefferson Davis Parish Water and Sewer Commission No. 1 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.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Commission, a special purpose single proprietary fund type, is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Commission applies all applicable FASB pronouncements in accounting and reporting for its operations.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NGL

Notes to the Financial Statements

E. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and funds investments with original maturities of 90 days or less. Under state law, the Commission may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana Law or any other state of the United States, or under the laws of the United States.

F. PREPAID EXPENSE

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

G. 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 are charged as an expense against operations. Fixed assets reported on the balance sheet are net of accumulated depreciation, exclusive of those reported under construction in progress. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Watershed and pumped	10-20 years
Storage and treatment plant	5-50 years
Water distribution system	10-50 years
Computer system	5 years
Equipment - Plant	5-20 years
Vehicles	5 years

H. FUND EQUITY

Contributed Capital

Grants, reimbursements, or shared revenues received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Contributed capital is not amortized based on the depreciation recognized on that portion of the assets acquired from such contributions.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use. Upon completion and acceptance of the newly constructed systems, the district will be required to maintain certain cash reserves as mandated by the loan agreement with the United States Department of Agriculture's Rural Development Division.

1. USE OF ESTIMATES

The preparation of financial statements in conformity 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

A. CAPITALIZATION OF INTEREST

FAS-34 (Capitalization of Interest Costs) requires that interest expenditures incurred during construction of assets be capitalized. FAS-62 (Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants) concludes that constructed assets financed with the proceeds of tax-exempt debt (if those funds are externally restricted to finance the acquisitions of the asset or used to service the related debt) should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. Net interest costs capitalized totaled \$72,359 and \$41,943 during 2003 and 2002.

K. DEFERRED CHARGES

The various fees incurred in connection with obtaining and issuing the revenue bonds have been capitalized and are being amortized over a period equal to the term of the bond using the interest method. Amortization expense amounted to \$1,788 and \$813 for the years ended December 31, 2003 and 2002, respectively.

2. FUND DEFICITS

At December 31, 2003, the unreserved retained earnings deficit totals \$102,241. Management expects that this deficit will gradually be eliminated subsequent to completion of Phase II construction project. The completion of Phase II is expected to take place in 2004. Management expects that deficits may continue through 2004 and begin reversing in 2005, which would represent the first year of full operation for the entire waterworks system within its jurisdictional boundaries.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

1. DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2003, the Commission has cash equivalents (book balances) totaling \$184,961 as follows:

Demand deposits	\$ 184,961
	<hr/>
Total Book Balance	\$ <u>184,961</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, 2003, the Commission has \$ 182,343 in deposits (collected bank balances). These deposits are secured from risk by \$ 100,000 of federal deposit insurance and \$82,343 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 38:1129 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 30 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

Investments

The Commission invests only in certificates of deposit. Investments are categorized into the following three categories of credit risk in accordance with GASB 3 to give an indication of the level of risk assumed by the Commission.

Category 1 – includes investments that are insured or registered, or securities held by the government or its agent in the Commission's name.

Category 2 – includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.

Category 3 – includes investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

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

<u>Investment Type</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of Deposit	\$ 70,435	\$ 70,435	\$ 70,435
Total	<u>70,435</u>	<u>70,435</u>	<u>70,435</u>
Total Investments		<u>70,435</u>	\$ <u>70,435</u>

A reconciliation of deposits and investments as shown on the Balance Sheet are as follows:

Carrying amount of deposits	\$ 184,961
Carrying amount of investments	<u>70,435</u>
Total	\$ <u>255,406</u>
Cash equivalents – Restricted	\$ 184,961
Investments	9,333
Investments – Restricted	<u>60,982</u>
Total	\$ <u>255,406</u>

4. RECEIVABLES

The following is a summary of receivables at year end:

	<u>2001</u>	<u>2002</u>
Customer receivables:		
Current	\$ 24,182	\$ 21,423
Past Due	<u>1,137</u>	<u>3,337</u>
Gross customer receivables	25,319	24,760
Accrued unbilled receivables	7,600	-
Other	438	-
Less: allowance for doubtful accounts	-	-
Net total receivables	<u>34,317</u>	\$ <u>24,760</u>

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on an assessment of the current status of individual

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

5. RESTRICTED ASSETS

Assets were restricted for the following purposes at year end:

	<u>2003</u>	<u>2002</u>
Customer deposits	\$ 87,138	90,115
Revenue bond extensions and maintenance account	44,137	2,712
Revenue bond construction account	99,680	7,183
Revenue bond current debt service sinking fund account	189	189
Revenue bond future debt service reserve account	7,484	2,940
Revenue bond depreciation and contingency account	<u>7,484</u>	<u>2,940</u>
 Total	 <u>\$ 246,862</u>	 <u>106,082</u>

6. FIXED ASSETS

A summary of fixed assets at year end follows:

	<u>2003</u>	<u>2002</u>
Wastewater and pumped	\$ 234,596	\$ 234,596
Storage and treatment plant	1,318,975	1,318,975
Water distribution system	1,940,341	1,940,341
Computer system	30,283	18,292
Equipment - Plant	56,688	56,688
Vehicles	21,411	21,411
Less accumulated depreciation	<u>(354,692)</u>	<u>(356,381)</u>
Land	19,284	19,284
Construction in Progress	<u>3,227,896</u>	<u>37,179</u>
Total	<u>\$ 6,499,822</u>	<u>\$ 3,295,782</u>

7. LONG-TERM DEBT

The long-term debt of the Commission consists of various revenue bonds payable to the United States Department of Agriculture as follows:

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

	<u>2003</u>	<u>2002</u>
\$1,765,000 US Department of Agriculture revenue bond, dated August 21, 2001, one interest only payment of \$37,362.50 due August 21, 2002, thereafter payable in monthly installments of \$6,671.78, including principal and interest, to August 21, 2041, interest at 5.25%.	\$ 1,734,166	1,757,455
\$162,000 US Department of Agriculture revenue bond, dated August 21, 2001, one interest only payment of \$7,423 due August 21, 2002, thereafter payable in monthly installments of \$749.18, including principal and interest, to August 21, 2041, interest at 4.5%.	162,861	164,482
\$3,048,000 US Department of Agriculture revenue bond, dated July 21, 2003, one interest only payment to be determined based on actual amount of advances received (as of December 31, 2003 only \$2,870,262 advanced) due July 21, 2004, thereafter payable in weekly installments of \$13,598.54, including principal and interest, to July 21, 2043, interest at 4.335%.	2,716,419	-
Less current portion	<u>(41,360)</u>	<u>(24,919)</u>
	\$ 4,725,825	1,897,019

The annual requirements to amortize all debts outstanding including interest are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 41,360	241,078	282,444
2005	65,934	186,531	252,465
2006	68,347	182,885	252,232
2007	71,101	181,131	252,232
2008	73,968	178,263	252,231
2009-2013	407,138	844,000	1,251,138
2014-2018	588,794	732,266	1,321,060
2019-2023	621,008	640,153	1,261,161
2024-2028	738,507	582,653	1,321,160
2029-2033	927,094	334,063	1,261,157
2034-2038	999,711	129,326	1,129,037
2039-2043	214,289	9,544	223,833
Total	\$ 4,767,250	4,183,020	8,950,270

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

8. COMPENSATED ABSENCES

At December 31, 2003, the Commission had no policy of allowing vacation or sick leave benefits to vest. All vacations must be taken within the year of eligibility and cannot be carried over. Therefore, the accompanying financial statements do not contain a provision nor a liability for compensated absences.

9. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. As of December 31, 2003, the Commission carries commercial insurance for the aforementioned risk. General liability coverage is maintained through a commercial insurance policy provided by the Jefferson Davis Parish Police Jury. During the construction phase, contractor nonperformance and liability risk was protected by requiring each contractor to post a performance bond and a certificate of liability insurance coverage for approved contracts. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years or since inception of the Commission, which ever is less.

10. INTEREST COST

Interest costs recorded in financial statements consist of the following:

	<u>2003</u>	<u>2002</u>
Interest paid	\$ 74,382	86,547
Interest accrual change	<u>48,510</u>	<u>(21,683)</u>
 Total interest recorded	 122,892	 64,864
Less amount capitalized in construction in progress	<u>(72,599)</u>	<u>(41,963)</u>
 Amount charge to expense	 \$ <u>50,293</u>	 <u>22,901</u>

11. SUBSEQUENT EVENTS

Subsequent to December 31, 2002, the Commission received approval of an additional grant in the amount of \$710,000 and long-term financing in the amount of \$2,049,000 in revenue bonds from the United States Department of Agriculture- Rural Utility Systems to fund the Phase II expansion of the water distribution system. Phase II will expand the distribution system westward and provide for an administrative office building. As of December 31, 2003, none of the \$710,000 in grant monies have been received or expended. As of December 31, 2003, the Commission has received \$2,870,263 in advances on the \$2,049,000 in approved revenue bonds.

Remaining contract commitments for Phase II construction costs was \$189,917 as of December 31, 2003.

JEFFERSON DAVIS PARISH WATER AND SEWER COMMISSION NO.1

Notes to the Financial Statements

12. LITIGATION AND CLAIMS

The Commission is not presently involved in any litigation as plaintiff or defendant.

13. NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Effective January 1, 2002, JD Parish Waterworks District No. 1 and No. 5 were merged into the Commission. In conjunction with the merger, assets were received and liabilities were assumed as follows:

Receivables	\$	7,067
Land		1,629
Plant, system and equipment		282,925
Accumulated depreciation		<u>(798,573)</u>
Total non-cash assets acquired in merger of other districts		97,048
Liabilities assumed in merger		<u>(21,653)</u>
Net non-cash intergovernmental capital contributed		75,395
Cash received in merger		121,240
Total intergovernmental capital contributed	\$	<u>196,635</u>

14. WATER REVENUE BOND COVENANTS

The water revenue bond agreement contains covenants that require the Commission to maintain three restricted cash funds at specified levels. The following is a summary of the status of the various restricted cash funds as of year end:

	Sinking Fund	Reserve Fund	Contingency Fund
Minimum Required Balance	\$ <u>48,533</u>	\$ <u>7,404</u>	\$ <u>7,484</u>
Actual Balance in Account	<u>180</u>	<u>7,404</u>	<u>7,484</u>
Over (Under) Funded	<u>(48,353)</u>	<u>-</u>	<u>-</u>

The \$48,353 unfunded amount in the Sinking Fund represents construction period interim interest on Phase II of the Water Distribution System through December 31, 2005. The Phase II project is expected to be completed and accepted during the summer of 2004. Total construction period interim interest through this time is expected to be approximately \$120,000. Although the Commission has not made the required monthly deposits into the Sinking Fund, additional funds to be received from the U.S. Department of Agriculture Rural Development in the form of grant monies is expected to fund \$100,000 of the total estimated construction period interest of \$120,000. The remaining \$20,000 is expected to be paid from the revenue operating account.

SUPPLEMENTAL INFORMATION SCHEDULES

JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO. 1
Schedule of Compensation and other Expenses Paid to Commissioners
For the Year Ended December 31, 2005

<u>Board Member</u>		
Gregory Beaudin	\$	780
Mike Perry		780
Don Johnson		780
Irving Jones		780
Raymond Brown		720
Chad Woods		600
John Janson		780
	\$	<u>5,320</u>

**JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO. 1**

**Additional Information Required by United States Department of Agriculture
For the Year Ended December 31, 2003**

1. Accounts receivable for sales of water were aged as follows:

<u>Aging Category</u>	<u>Number of Customers</u>	<u>Receivable Amount</u>
Current	641	\$ 24,102
Past Due	149	2,337
	<u>1,090</u>	<u>\$ 26,439</u>

2. Estimated number of customers as of year-end:

Residential	1,049
Commercial	41

3. Schedule of insurance in force was as follows:

<u>Policy No.</u>	<u>Company</u>	<u>Agent</u>	<u>Type Coverage</u>	<u>Amount Coverage</u>	<u>Effective From</u>	<u>Date To</u>
54710105-000	LA Parish Government Risk Management		Workers' Compensation	\$1,000,000	1/1/03	12/31/03
66871927	Western Surety Company	Ed Cassidy Insurance Agency, Inc.	Employee Bond	\$166,000	2/24/03	2/24/04
249-60-02-04	Employers Mutual Casualty Company	Boitrand Insurance Agency	Commercial Fire	Building Contents \$40,000	8/13/03	8/18/04
1774678-2	Progressive Insurance Firm	Boitrand Insurance Agency	Vehicle	\$21,000	7/3/03	1/04
8F133565	Barnes Insurance Company		Equipment	\$10,000	1/9/03	1/9/04

JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO. 1

Additional Information Required by United States Department of Agriculture
For the Year Ended December 31, 2003

Coverage maintained through policy purchased by the Jefferson Davis Parish Police Jury:

Policy No.	Company	Agent	Type Coverage	Amount Coverage	Effective Date	Termination Date
0809309026	St. Paul Fire & Marine Insurance	Daly Williams Agency, Inc.	General Liability	Comurrence \$1,000,000 Aggregate \$2,000,000	2/1/00	2/1/04

4. Schedule of approved water rates were as follows:

\$13.00 minimum per month for the first 2,000 gallons

\$2.85 per thousand or part thereof all over 2,000 gallons

10% late fee is assessed on past dues

OTHER REPORTS

JEFFERSON DAVIS PARISH
 WATER & SEWER COMMISSION (601)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2003

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 2,870,263
Total U.S. Department of Agriculture			<u>2,870,263</u>
Total Expenditures of Federal Awards			<u>\$ 2,870,263</u>

See accompanying notes to schedule of expenditures of federal awards.

**JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Jefferson Davis Parish Water and Sewer Commission No. 1 and is presented on the accrual basis of accounting, the same basis as the accompanying financial statements are presented. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. All information is presented for the fiscal year ending December 31, 2003. Since some of the grants cover more than twelve (12) month periods, the amounts contained in the accompanying schedule of expenditures of federal awards may differ from the financial status reports filed with the grantor agency.

2. SUMMARY OF GRANT AND LOAN MONIES EXPENDED

The Water and Waste Disposal System for Rural Communities Program (CFDA No. 10.760) is designed to assist rural communities in obtaining safe drinking water and adequate waste facilities, which are a prerequisite for economic growth. Under this program, U.S. Department of Agriculture's Rural Utilities System awards direct loans and project grants for new and improved water and waste systems. The following is a summary of both grant and loan monies expended during the year ending December 31, 2003 as reported in the accompanying schedule of expenditures of federal awards:

Grant expenditures	\$	0-
Direct loan expenditures	\$	<u>2,870,263</u>
Total Expenditures of Federal Awards	\$	<u>2,870,263</u>

**JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1**

**MANAGEMENT'S STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2003**

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 100-1 : Delinquent Submission of Financial Statements

Condition: Financial statements for the year ending December 31, 2002, were filed after June 30, 2003.

Recommendation: Procedures should be implemented by management to ensure that all information necessary for preparation of financial statements are completed in a timely manner.

Current Status/ Management Action Taken: Condition was resolved for year ending December 31, 2003.

Contact Person: Mr. Alvin Richard, Manager

Completion Date: December 31, 2003

Finding 100-2 : Deficiency in Internal Controls Concerning Customer Accounts Receivables

Condition: Review of controls concerning customer accounts receivables disclosed a lack of proper controls and procedures.

Recommendation: Management should implement procedures to ensure that accounts receivable subsidiaries are reconciled to the general ledger control accounts on a monthly basis. Someone other than the bookkeeper should compare the subsidiaries to the general ledger and approve completion of this procedure on a monthly basis.

Current Status/ Management Action Taken: I am in the process of getting board approval to contract outside professional services to assist us in implementing procedures to eliminate this finding.

Contact Person: Mr. Alvin Richard, Manager

Completion Date: December 31, 2004

Finding 100-3 : Deficiency in Internal Controls Concerning Customer Deposits

Condition: Review of controls concerning customer deposit payables disclosed a lack of proper controls and procedures.

Recommendation: Management should implement procedures to ensure that customer deposits payable subsidiaries are developed in a systematic manner consistent with sound accounting practices and reconciled to the general ledger control accounts on a monthly basis. Use of customer sign-up list as the

**JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1**

**MANAGEMENT'S STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2003**

such source of information to haphazardly enter deposit information into the subsidiary ledger should be discontinued. Someone other than the bookkeeper should compare the subsidiaries to the general ledger and approve completion of this procedure on a monthly basis.

Current Status/ Management Action Taken: I am in the process of getting board approval to contract outside professional services to assist us in implementing procedures to eliminate this finding.

Contact Person: Mr. Alvin Richard, Manager

Completion Date: December 31, 2004

Finding 2003-4: Missing Purchase Invoices and Duplicate Payments

Condition: A review of advertising expenditures disclosed isolated failures in operation of internal controls over expenditures.

Recommendation: Management should not allow checks to be issued unless accompanied by original invoices. Procedures should be implemented to ensure that someone in a supervisory position other than the bookkeeper authorizes payments only after appropriate detail invoice substantiation has been provided. I suggest that this individual document such approval and authorization by notation such as an initial or signature.

Current Status/ Management Action Taken: Condition was resolved for year ending December 31, 2003.

Contact Person: Mr. Alvin Richard, Manager

Completion Date: December 31, 2003

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings reported.

SECTION III – MANAGEMENT LETTER FINDINGS

No findings reported.

Mike B. Gillespie, CPA

(A Professional Accounting Corporation)

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PO Box 1247, Acadiana, LA 70546
Phone (337) 824-0733

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

To the Board Members of the
Jefferson Davis Parish Water & Sewer Commission No. 1
Lake Arthur, Louisiana

I have audited the financial statements of the Jefferson Davis Parish Water & Sewer Commission No. 1 (Commission) as of and for the year ended December 31, 2003, and have issued my report thereon dated June 8, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America 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 Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my 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 my audit, I considered the Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-2 and 2003-1.

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. My 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. However, of the reportable conditions described above I consider items 2003-2, and 2003-1a to be material weaknesses.

This report is intended for the information and use of the Commission's board members, management, others within the organization, and the Louisiana Legislative Audit Advisory Council, and related a working agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mike B. Gillespie, CPA, AFAC

Acadiana, Louisiana
June 8, 2004

Mike B. Gillespie, CPA

(A Professional Accounting Corporation)

414 East Narqueque Street
PO Box 1347, Jennings, LA 70548
Phone (337) 834-7773

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

To the Board Members of the
Jefferson Davis Parish Water & Sewer Commission No. 1
Lake Arthur, Louisiana

Compliance

I have audited the compliance of the Jefferson Davis Parish Water & Sewer Commission No. 1 (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The Commission'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 major federal programs is the responsibility of the Commission's management. My responsibility is to express an opinion on the Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governance Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Commission's compliance with those requirements.

In my opinion, the Commission 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, 2003.

Internal Control Over Compliance

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

My consideration of the internal control over compliance 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Commission's board members, management, others within the organization, federal awarding agencies and pass-through entities, and the Louisiana Legislative Audit Advisory Council and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mike E. Gallaguer, CPA, CFE

Jennings, Louisiana

June 8, 2004

JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NGLJ
SCHEDULE OF FINDINGS & QUESTIONED COSTS
For the Year Ended December 31, 1993

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of report issued: unqualified opinion on the general purpose financial statements
2. Internal control over financial reporting:
 - Material weakness(es) identified? - Yes
 - Reportable condition(s) identified that are not considered to be material weakness(es)? - No
3. Non-compliance material to the financial statements noted? - No
4. Was a management letter issued? - No

Federal Awards

5. Internal control over major programs:
 - Material weakness(es) identified? - No
 - Reportable condition(s) identified that are not considered to be material weakness(es)? - No
6. Type of auditor's report issued on compliance for major programs: qualified opinion
7. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No findings reported in Section III of this Schedule
8. The programs tested as major programs included:

CFDA No.	Program Name
10.550	Water and Waste Disposal Systems for Rural Communities

9. The threshold used for distinguishing between Type A and B programs was: \$200,000
10. Did the auditee qualify as a low risk auditee? - No

SECTION II - FINANCIAL STATEMENT FINDINGS

Unresolved Prior Year Findings:

Item: 1992-2

Finding/ Specific Requirement: Deficiency in Internal Controls Concerning Customer Accounts Receivables

Condition: Review of controls concerning customer accounts receivables disclosed a lack of proper controls and procedures.

**JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1
SCHEDULE OF FINDINGS & QUESTIONED COSTS
For the Year Ended December 31, 2003**

Cause of Condition: Customer accounts receivable subsidiary ledgers were not being reconciled to general ledger control totals on a monthly basis.

Effect of Condition: Receivables were understated \$135,182, sales tax payable was understated \$8,108, and revenues were understated \$127,074 as of December 31, 2002 and for the year then ended. Receivables and revenues were overstated \$39,027 as of December 31, 2003 and for the year then ended. These misstatements result in inaccurate financial statements reporting to management during interim periods. The accompanying financial statements have been adjusted to correct this situation.

Recommendation: Management should implement procedures to ensure that accounts receivable subsidiaries are reconciled to the general ledger control accounts on a monthly basis. Someone in a supervisory position over the bookkeeper should compare the subsidiaries to the general ledger and document approval of completion of this procedure on a monthly basis.

Auditor Response: I concur with your findings, and our staff, limited as it may be, will incorporate proper controls to eliminate this recurrence in the current year and future. I am in the process of getting board approval to contract outside professional services to assist us in implementing procedures to eliminate this finding. Auditor Contact – Mr. Alvin Richard, manager.

Finding 2002-3 : Deficiency in Internal Controls Concerning Customer Deposits

Condition: Review of controls concerning customer deposit payables disclosed a lack of proper controls and procedures.

Cause of Condition: Customer deposits payable subsidiary ledgers were not being reconciled to general ledger control totals. In addition, inquiries with the bookkeeping personnel indicated that unorthodox procedures were being used in developing the detail customer subsidiary ledger. Instead of using historical financial transaction information flowing in and out the customer deposit bank account, bookkeeping personnel were attempting to develop the subsidiary from a sign-up list provided by outside consulting engineers.

Effect of Condition: Customer deposits payable subsidiary ledger was not properly updated for all transactions that occurred during 2002 and 2003. This caused the subsidiary ledger to be out of balance with the general ledger control account approximately \$45,000 as of December 31, 2002. The auditor's were not provided a subsidiary ledger of customer deposits for the year ending December 31, 2003.

Recommendation: Management should implement procedures to ensure that customer deposits payable subsidiaries are developed in a systematic manner consistent with sound accounting practices and reconciled to the general ledger control accounts on a monthly basis. Use of customer sign-up list as the sole source of information to haphazardly enter deposit information into the subsidiary ledger should be discontinued. Someone in a supervisory position over the bookkeeper should compare the subsidiaries to the general ledger and document approval of completion of this procedure on a monthly basis.

Auditor Response: I agree with your findings, and efforts will be utilized to reconcile our general ledger to our customer deposit payable subsidiary ledger from the beginning of operations of our company to current and should be reconciled by year's end. I am in the process of getting board approval to contract outside professional services to assist us in implementing procedures to eliminate this finding. Auditor Contact – Mr. Alvin Richard, manager.

JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1
SCHEDULE OF FINDINGS & QUESTIONED COSTS
For the Year Ended December 31, 2003

Current Year Findings:

No findings reported, except for prior year unassessed findings reported above.

SECTION III - FINANCIAL AWARD FINDINGS AND QUESTIONED COSTS

No findings reported

JEFFERSON DAVIS PARISH
WATER & SEWER COMMISSION NO.1
MANAGEMENT'S CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For the Year Ended December 31, 2003

SECTION I – FINANCIAL STATEMENT FINDINGS

No current year findings reported, but see Management's Status of Prior Year Audit Findings

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No current year findings reported

SECTION III – MANAGEMENT LETTER

No current year findings reported

* * * * *

THIS CORRECTIVE ACTION PLAN HAS BEEN PREPARED BY MANAGEMENT