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WATERWORKS DISTRICT NO. 1 OF THE  
PARISH OF VERMILION, STATE OF LOUISIANA

FINANCIAL REPORT

DECEMBER 31, 2003

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the entity and other appropriate governmental entities. 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.

Malopina Stone

7-28-04

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**Waterworks District No. 1 of the  
Parish of Vermilion, State of Louisiana  
Abbeville, Louisiana**

We have audited the accompanying general-purpose financial statements of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana (a component unit of the Vermilion Parish Police Jury) as of and for the year ended December 31, 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Schedule" in the table of contents including the schedule of expenditures of Federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, is

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Waterworks District No. 1 of the  
Parish of Vermilion, State of Louisiana

presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Broussard, Poché, Lewis & Bracey L.L.P.

Abbeville, Louisiana  
June 17, 2004

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

BALANCE SHEET  
December 31, 2000

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 234,817
Accounts receivable	<u>62,869</u>
Total current assets	\$ 297,686

RESTRICTED ASSETS

Cash and cash equivalents - reserve fund	\$ 14,678
Cash and cash equivalents - contingency fund	14,678
Cash and cash equivalents - sinking fund	104,900
Cash and cash equivalents - security fund	11,180
Cash and cash equivalents - construction	<u>7,562</u>
Total restricted assets	\$ 147,000

FIXED ASSETS

Property, plant and equipment	\$10,124,813
Less: Accumulated depreciation	<u>(7,126,020)</u>
Total fixed assets	\$ 2,998,793

Total assets \$10,385,514

See Notes to Financial Statements.

**LIABILITIES AND FUND EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 317,389
Retainage payable	183,754
Accrued expenses	<u>5,072</u>
	<b>\$ 506,215</b>

**CURRENT LIABILITIES (payable from restricted assets)**

Money deposits	\$ 11,000
Bonds payable, current portion	37,360
Accrued interest payable	<u>12,881</u>
	<b>\$ 61,241</b>

Total current liabilities **\$ 567,456**

**LONG-TERM LIABILITIES**

Bonds payable, long term	<u>3,388,715</u>
--------------------------	------------------

Total liabilities **\$ 4,147,171**

**FUND EQUITY**

Contributed capital	\$ 1,881,818
Retained earnings - reserved	81,600
Retained earnings - unreserved	<u>203,292</u>

Total fund equity **\$ 4,148,712**

Total liabilities and fund equity **\$4,148,008**

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
Year Ended December 31, 2003

Operating revenues:	
Water sales (net of rebates)	\$ 361,880
Fees	12,588
Reconnection fees	8,148
Water Surcharges	21,273
Water Irregular	42,748
Miscellaneous	<u>28,787</u>
Total operating revenues	<u>\$ 575,424</u>
Operating expenses:	
Automobile expense	\$ 8,201
Chemicals	77,624
Depreciation expense	123,283
Dues and subscriptions	1,089
Insurance	27,723
Main installation	33,867
Miscellaneous	36,264
Office supplies	18,780
Payroll and related expenses	93,634
Printing and publications	7,877
Professional fees	3,325
Repairs	11,611
Loan expense	6,400
Telephone and utilities	15,715
Tools and supplies	<u>3,268</u>
Total operating expenses	<u>\$ 462,720</u>
Operating income	<u>\$ 112,704</u>
Nonoperating revenue (expenses):	
Interest income	\$ 2,158
Interest expense	(158,025)
FEMA grant	<u>3,879</u>
Total nonoperating revenue (expenses)	<u>\$ (152,888)</u>
Net income	<u>\$ 60,816</u>
Add: Depreciation on fixed assets acquired by contributions accrued for capital construction that reduces contributed capital	
	<u>83,524</u>
Income in retained earnings	<u>\$ 154,340</u>
Retained earnings, beginning of year	<u>120,581</u>
Retained earnings, end of year	<u>\$ 294,824</u>

See Notes to Financial Statements.



WATER-WORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

STATEMENT OF CASH FLOWS  
Year Ended December 31, 2003

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Operating income	\$ 213,604
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	153,183
Changes in assets and liabilities:	
Increase in accounts receivable	(24,775)
Increase in accounts payable	581,563
Increase in retainage payable	133,269
Increase in accrued expenses	<u>1,680</u>
 Net cash provided by operating activities	 <b><u>\$ 769,834</u></b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Increase (decrease) in customer meter deposits	\$ 6,730
Operating grants received	<u>3,833</u>
 Net cash provided by noncapital financing activities	 <b><u>\$ 10,563</u></b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Proceeds on capital debt	\$2,850,000
Payments on capital debt	(16,765)
Interest paid on bonds	(211,883)
Purchase of capital assets	(4,129,653)
Capital contributions	<u>351,642</u>
 Net cash used by capital and related financing activities	 <b><u>\$ 812,341</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest income	\$ 3,156
 Net increase in cash and cash equivalents	 <b>\$ 129,177</b>
Cash and cash equivalents, beginning	<u>351,659</u>
 Cash and cash equivalents, ending	 <b><u>\$ 480,836</u></b>

**SUPPLEMENTAL DISCLOSURES**

Cash payments for interest	<b><u>\$ 131,583</u></b>
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See Notes to Financial Statements.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

Note 1. **Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies for Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana (the "District").

**Reporting Entity**

The District is a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the governmental body with oversight responsibility. The accompanying financial statements present information only as to the transactions of the District and does not present information on the Vermilion Parish Police Jury, the general government services provided by that governmental unit, and other governmental units that comprise the governmental reporting entity.

**Fund Accounting**

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. Revenues are accounted for in these individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds presented in the financial statements are described as follows:

**Proprietary Fund**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. All of the operations of the District are accounted for in proprietary funds.

**Organization**

The District was formed by the Vermilion Parish Police Jury in 1986. The District is governed by five commissioners, all appointed by the Police Jury. In 1999, the District was granted authority to construct a water system in the northern portion of Vermilion Parish. In addition, the District was given authority to establish and collect water user rates as it deems necessary.

**Basis of accounting**

All proprietary funds are accounted for on a flow of economic resources measurement basis. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary funds are reported in accordance with GASB Statement No. 30, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.

This standard requires that all applicable GASB pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989 be applied to proprietary activities unless they (FASB Statements and Interpretations, APB Opinions, and ARBs) conflict with or contradict GASB pronouncements.

**WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

GASB Statement No. 30 also states that for proprietary activities, management may elect to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The District will not elect to apply FASB Statements and Interpretations issued after November 30, 1989, unless they are adopted by GASB.

**Cash and cash equivalents**

For purposes of reporting, cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased.

**Fixed assets**

Property, plant, and equipment are recorded at cost, or if donated, at the approximate fair value at the date of donation. Interest costs are capitalized when incurred on debt whose proceeds were used to finance the construction of assets. Interest earned on proceeds invested that are restricted to the acquisition and construction of capital assets is offset against interest costs in determining the amounts to be capitalized. Repairs and maintenance are recorded as expenses.

Property, plant, and equipment are depreciated in accordance with generally accepted accounting principles using the straight-line method over assets' estimated useful lives. Estimated useful lives vary from 10 to 50 years.

**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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 1. Property, Plant, and Equipment**

The following is a summary of fixed assets as of December 31, 2003:

Asset Category	Cost	Accumulated Depreciation	Book Value
Construction in process	\$ 1,894,093	\$ -	\$ 1,894,093
Distribution system	4,861,084	268,928	4,592,156
Treatment plant, buildings, and equipment	1,208,141	130,570	1,077,571
Office	26,284	10,861	15,423
Land	188	-	188
<b>Totals</b>	<b>\$10,234,831</b>	<b>\$ 410,359</b>	<b>\$ 9,824,472</b>

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

Note 3. Bonds and Notes Payable

The District had outstanding water revenue bonds at December 31, 2000. The bonds were issued in United States Department of Agriculture — Rural Development Division. The bonds were issued October 12, 2000, in two series (Bond R-1 in the amount of \$1,148,000 bearing interest at 4.75% per annum and Bond R-2 in the amount of \$182,800 bearing interest at 5% per annum) and the proceeds are to be used for the construction of a water system in northern Vermilion Parish, Louisiana.

Monthly payments consisting of interest and principal in the amount of \$6,429 for Bond R-1 and \$789 for Bond R-2 will continue through October 12, 2048.

A bond Series 2002 was also issued on November 26, 2002 in the amount of \$1,256,000 at 4.625% and the proceeds are to be used for constructing improvements and maintenance to the waterworks system. The first payment was due on November 12, 2003. Monthly payments consist of interest and principal in the amount of \$3,881 and continue through November 12, 2041. The bonds are to be repaid from recurring water revenues of the water system.

During 2003, the District entered into agreements whereby interim financing was provided for the expansion of the water system into the Indian Bayou (IB47) area and the Intracoastal City, Fates, and Parked Island area (IBP). Interim financing was provided through the issuance of Indian Bayou 2003A (Bond Anticipation Note, Series 2003A in the amount of \$1,506,000 and Intracoastal 2000B (Bond Anticipation Note, Series 2003B in the amount of \$1,883,000. These notes accrued interest at the rate of 1.25% and were due May 1, 2004 and June 5, 2004 respectively. The interim financing was provided by various lenders including Louisiana Public Facilities Authority (LPFA) and Bank One. At December 31, 2000, the balance drawn on the interim financing was as follows:

Louisiana Public Facilities Authority	\$ 667,000
Bank One	2,195,942
Total interim financing	\$2,862,942

In April 2004, the interim financing was converted to permanent financing through the issuance of bond series 2004A in the amount of \$2,195,942 payable over forty (40) years at an annual interest rate of 4.25% and series 2004B in the amount of \$2,195,000 payable over forty (40) years at an annual interest rate of 4.125%.

Since the interim financing was converted to permanent financing shortly after year-end, the total of the interim financing is included in the financial statements as long-term debt.

Interest on the interim financing was accrued through December 31, 2000 in the amount of \$20,268. This interest was capitalized and is included in Construction in progress.

The District is required to make monthly payments to a reserve and a contingency fund. The 2000 and 2002 bond indentures require that monthly payments be made to a reserve and a contingency fund. The required monthly payments at December 31, 2000 are \$361 to the reserve fund and \$361 to the contingency fund. The amount of the payment to each fund will increase to \$376 when the construction project funded by the 2002 bond issue is completed and accepted by the District. At December 31, 2000, the balance in the reserve fund is \$14,678 and the balance in the contingency fund is \$14,678.

**WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERGELION  
STATE OF LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

A recap of bond activity for the year is as follows:

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Bond R-1	\$ 1,255,454	\$ -	\$ 13,152	\$ 1,242,302
Bond R-2	160,364	-	1,483	158,881
Bond Series 2002	1,258,000	-	2,688	1,255,312
	<u>\$ 2,758,818</u>	<u>\$ -</u>	<u>\$ 18,799</u>	<u>\$ 2,740,119</u>
Interim Financing	-	2,858,955	-	2,858,955
	<u>\$ 2,758,818</u>	<u>\$ 2,858,955</u>	<u>\$ 18,799</u>	<u>\$ 5,601,009</u>

The annual requirements to amortize the bonds payable (excluding the interim financing) at December 31, 2003 are as follows:

	Principal	Interest	Total
2004	\$ 27,365	\$ 128,891	\$ 156,256
2005	28,671	127,583	156,254
2006	30,018	126,218	156,236
2007	31,479	124,798	156,276
2008	32,971	123,281	156,250
2009-2013	188,990	581,283	770,273
2014-2018	238,818	541,408	780,226
2019-2023	302,774	478,582	781,356
2024-2028	382,180	399,838	782,018
2029-2033	482,588	294,887	777,475
2034-2038	608,107	171,369	779,476
2039-2042	393,287	68,681	461,968
	<u>\$2,793,114</u>	<u>\$3,080,342</u>	<u>\$5,873,456</u>

**Note 4. Concentration of Credit Risk**

The only financial instrument that potentially subjects the District to concentrations of credit risk is trade receivables. Concentration of credit risk with respect to trade receivables is limited to the geographical region of which the District services water and the general economy of that region.

**Note 5. Board of Commissioners**

The board of commissioners consists of five members, which do not receive compensation, as follows:

Carroll Dalton, Chairman  
Helen Pauls  
T. J. Prejean  
Gustine Caspard  
Marvell Clemens

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

Note 6. **Contributed Capital**

Contributed Capital reflects funding for construction projects for the District. Activity in the contributed capital account for the year ended December 31, 2004, is as follows:

Balance, beginning	\$ 3,710,810
Additions:	
USDA Rural Development Grant	161,640
Reductions:	
Depreciation on assets acquired with contributed capital	<u>(15,126)</u>
Balance, ending	<u>\$ 3,857,324</u>

Note 7. **Cash and Investments**

For reporting purposes, cash and cash equivalents include demand deposits, interest-bearing demand deposits, and time deposits. Under State law, the District may invest in United States bonds, treasury notes or certificates, or time certificates of deposit of State banks having their principal office in the State of Louisiana, or any other federally insured institution. The District may also invest in shares of any (unlimited) and building and loan association in any amount not exceeding the federally insured amount. Deposits (bank balances) totaling \$787,858 at December 31, 2004, were fully secured by Federal Deposit Insurance Corporation (FDIC) coverage plus pledged securities held by the custodial bank in the bank's name (Category 1) with a fair market value of \$668,871.

Note 8. **New Reporting Standard**

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This standard established new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The District is required to implement this standard for the fiscal year ended December 31, 2004. The District has not yet determined the full impact that adoption of GASB Statement No. 34 will have on the financial statements.

Note 9. **Subsequent Events**

During April 2004, the District issued Water Revenue Bonds, Series 2004A in the amount of \$2,265,000 and Water Revenue Bonds, Series 2004B in the amount of \$1,181,000. These bonds represent permanent financing to replace the interim financing for ongoing construction projects.

**WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**Note 10. Leases**

The District leases property from the Vermilion Parish School Board for the purposes of operating its main water plant in Lery, Louisiana. The lease originated December 16, 1999 and has an initial term of ten (10) years running through 2009. Provisions within the lease call for a mandatory extension of the lease for thirty one (31) years. The lease calls for annual lease payments in the amount of \$180 due at the beginning of each year. Due to an oversight, the lease payments were not made for the first four years. The lease obligation for that period of \$1,200 is included in accounts payable and lease expense in the current period in the accompanying financial statements.

The District leases property for the location of the water system currently under construction at Intracoastal City, Bayou, and Poole Island (IIP). The lease has a term of forty (40) years with the option of an additional term of forty (40) years. The lease calls for monthly lease payments of \$400. The amount included in lease expense for this obligation in this year is \$3,500.

The minimum future lease payments under this obligation are as follows:

2006	\$ 5,100
2005	5,100
2006	5,100
2007	5,100
2008	5,100
2009-2013	24,500
2014-2020	24,000
2021-2023	24,000
2024-2030	24,000
2031-2033	24,000
2034-2038	24,000
2039-2043	24,000
2044	1,800
	<u>\$1,025,800</u>

**Note 11. Construction Commitments**

As December 31, 2003, the District had construction commitments outstanding in the amount of \$2,131,415. These commitments represent the balance to be completed on incomplete contracts and balances on contracts terminated but not started as of December 31, 2003.

Funding for the completion of these contracts is anticipated to be available through additional borrowings of the District.

**Note 12. Retained Earnings - Reserved**

The District has reserved a portion of retained earnings in the amount of \$81,603. This represents the excess of restricted assets over current liabilities payable from restricted assets for the purpose of debt service, construction, and customer security deposits.

**WATERWORKS DISTRICT NO. 1 OF THE PARISH OF FISHBELOW  
STATE OF LOUISIANA**

**SCHEDULE OF STATISTICAL DATA AND INSURANCE IN FORCE  
Year ended December 31, 2003**

The monthly water rates in effect at December 31, 2003 were as follows:

<b>Monthly residential rates</b>	
First 2,000 gallons, per month	\$ 13.00
All over 2,000 gallons, per 1,000 gallons or part thereof	\$ 2.65
<b>Monthly commercial rates</b>	
First 2,000 gallons, per month	\$ 13.00
Next 18,000 gallons, per 1,000 gallons or part thereof	\$ 2.65
All over 20,000 gallons, per 1,000 gallons or part thereof	\$ 2.00

Average monthly billing per customer:

Water sales	\$ <u>361,853</u>
Average sales per month	\$ <u>46,818</u>
Number of customers (at December 31, 2003):	
Residential	2,185
Commercial	<u>    58</u>
	<u>2,243</u>
Average monthly bill per customer	\$ <u>20.82</u>

The schedule of insurance in force at December 31, 2003 is as follows:

Contract	Expiration Date	Policy Limits	
Facility Bond	April 3, 2004	\$ 416,000	
Commercial General Liability	February 12, 2004	\$ 1,000,000	Each occurrence
		\$ 100,000	Fire (damage limit)
		\$ 2,000	Medical expense limit
		\$ 1,000,000	Personal and advertising injury limit
		\$ 2,000,000	General aggregate limit
Commercial Property	February 12, 2004	\$ 950,000	Buildings
		\$ 225,000	Water wells and tanks
Commercial Auto Coverage	February 12, 2004	\$ 1,000,000	Liability
		\$ 1,000,000	Uninsured motorists
Workers Compensation	December 14, 2004	\$ 1,000,000	





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

**Waterworks District No. 1 of the  
Parish of Vermilion, State of Louisiana  
Abbeville, Louisiana**

We have audited the general purpose financial statements of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana as of and for the year ended December 31, 2003, and have issued our report thereon dated June 22, 2004. We conducted our 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item #2003-1.

Waterworks District No. 1 of the  
Parish of Terrebonne, State of Louisiana

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The condition mentioned above is considered a material weakness.

This report is intended solely for the information and use of management, the Legislative Auditor, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:213, this report is distributed by the Legislative Auditor as a public document.

*Broussard, Poché, Lewis & Breaux, L.L.P.*

Monroe, Louisiana  
June 22, 2004



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**Retired:**

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Lois K. Ford, CPA 1986

James H. Brown, CPA 1987

Ernie S. Wilson, CPA 1988

George A. Jones, CPA 1989

Emilie J. Winkler, CPA 1993

Malory L. Gray, CPA 1994

Wayne S. Brummet, CPA 1997

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

Waterworks District No. 1 of the  
Parish of Vermilion, State of Louisiana  
Abbeville, Louisiana

**Compliance**

We have audited the compliance of the Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana, 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, 2005. The District's major federal programs are identified in the summary of AUDITOR'S results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2005.

**Internal Control over Compliance**

The management of the District 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 our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**Waterworks District No. 1 of the  
Parish of Vermilion, State of Louisiana**

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item #2001-1.

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 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. The consideration of the internal control over compliance 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. The condition mentioned above is considered a material weakness.

This report is intended solely for the information and use of management, the Legislative Auditor, and federal awarding agencies and is not intended to be used should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:502, this report is distributed by the Legislative Auditor as a public document.

*Bourgeois, Poché, Laminé & Bureau L.L.P.*

Abbeville, Louisiana  
June 21, 2004

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2003

We have audited the general purpose financial statements of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana as of and for the year ended December 31, 2003, and have issued our report thereon June 23, 2004. 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.

Section I. Summary of Auditor's Reports

The following summarizes the auditor's results in accordance with OMB Circular A-133:

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana (the District) as of and for the year ended December 31, 2003.
2. One reportable condition in internal control was disclosed during the audit of the District's financial statements. That condition is reportable as a material weakness.
3. The audit did not disclose any instances of noncompliance considered material to the financial statements of the District.
4. One reportable condition was disclosed during the audit of the District's federal award programs. The condition is reportable as a material weakness.
5. An unqualified opinion was issued on compliance for major federal award programs.
6. The program tested as a major program was:

Program	CEDMS
USDA - Office of Rural Development	11,750

7. The threshold used to distinguish a Type A from Type B program was \$300,000.
8. The District did not qualify as a low-risk auditee.

Section II. Financial Statement Findings

6202.1 - Segregation of Duties

**Finding:** In reviewing the internal control structure, we noted inadequate segregation of duties existed in all years of the financial cycle.

**Cause:** Inadequate segregation of duties exists due to the limited number of personnel performing the administrative functions. Due to the lack of resources, the District is unable to implement a segregated system of internal control.

**Recommendation and response:** Management is aware of and has evaluated this inadequacy and concluded that the related costs versus benefits to be achieved does not justify the additional personnel it would require to establish an adequate segregation. We are in agreement with the District that it would not be cost/beneficial or possible with the limited resources available to create a segregated accounting environment.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2003

Section III. Federal Award Findings and Questioned Costs

United States Department of Agriculture

Office of Rural Development - CFDA No. 16.758, Grant Period - year-ended December 31, 2003.

1. *Reportable condition:* The reportable condition discussed at #2003-1 above also applies to this grant.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2003

I. Internal Control and Compliance Material to the Financial Statements

ISSUE - Segregation of Duties

**Finding:** In reviewing the internal control structure, we noted inadequate segregation of duties existed in all areas of the financial cycle.

**Cause:** Inadequate segregation of duties exists due to the limited number of personnel performing the administrative functions. Due to the lack of resources, the District is unable to implement a segregated system of internal control.

**Recommendation and response:** Management is aware of and has evaluated this inadequacy and concluded that the related costs versus benefits to be achieved does not justify the additional personnel it would require to establish an adequate segregation. We are in agreement with the District that it would not be cost beneficial or possible with the limited resources available to create a segregated accounting environment.

**Current status:** We noted the same inadequate segregation of duties in the current year as Item #2003-1 and, as in the previous year, the District's Board feels that it has provided for as much segregation of duties as is cost-beneficial to the District at this time.

II. Internal Control and Compliance Material in Federal Awards

U.S. Department of Agriculture

Office of Rural Development - CFDA No. 18.750 - Finding #2003-1 above applies to this grant.

III. Management Letter

The prior year audit report did not include a management letter.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2003

Federal Grants/Pass-Through Agency/Program Title	CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Passed Through Office of Rural Development		
Water and Waste Disposal Loan and Grant Program (Note 2)		
Grant amount	18.768	\$ 761,642
Loan amount (Note 2)	18.768	<u>3,858,267</u>
		\$4,619,909
<b>Federal Emergency Management Agency</b>		
Passed Through State Office of Emergency Preparedness:		
Public Assistance Grants	80.544	<u>1,404</u>
<b>Total Federal Awards</b>		<b>\$4,621,313</b>



WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2003

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**Note 2. Loan Outstanding**

Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana had the following loan balance outstanding at December 31, 2003.

Program Title	CFDA Number	Amount Outstanding
Water and Waste Loan and Grant Program	10.790	\$2,355,114

As December 31, 2003, the District had interim financing in place for the expansion of the water system. A letter of conditions was in place as of the financial statement date related to the replacement of the interim financing with permanent financing through the Water and Waste Loan and Grant Program. The issuance of permanent debt instruments occurred in April 2004. Since the interim financing was expected to be converted to permanent financing through a federal agency, the amount of interim financing funds expended in 2003 is included in the schedule of expenditures of federal awards.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF VERMILION  
STATE OF LOUISIANA

MANAGEMENT'S CORRECTIVE ACTION PLAN  
Year Ended December 31, 2003

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

**ICSO-1, Segregation of Duties**

Management is aware of and has evaluated this inadequacy and concluded that the related costs versus benefits to be achieved do not justify the additional personnel it would require to establish an adequate segregation. We are in agreement with the Director that it would not be cost beneficial or possible with the limited resources available to create a segregated accounting environment.

Section II. Internal Control and Compliance Material to Federal Awards

See Item ICSO-1 above.

Section III. Management Letter

There are no findings reported in a separate management letter for the year ended December 31, 2003.

Responsible Party: Carroll Dulon, President