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COTEAU WATER SYSTEM, INC.

FINANCIAL REPORT

June 30, 2004

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 11-10-04

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To the Board of Directors
Coteau Water System, Inc.
New Iberia, Louisiana

We have audited the accompanying statements of financial position of Coteau Water System, Inc. (a nonprofit organization) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coteau Water System, Inc. as of June 30, 2004 and 2003, and the changes in net assets and its cash flows for the years 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 August 31, 2004, on our consideration of Coteau Water System, Inc.'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 "Schedules" in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, with the exception of Schedule 3 (Schedule of Insurance in Force), has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Schedule 3 has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Broussard, Roche, Lewis + Breau, L.L.P.

New Iberia, Louisiana

August 31, 2004

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COTEAU WATER SYSTEM, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 174,327	\$ 217,250
Certificates of deposit	130,771	10,000
Accounts receivable, net of allowance (2004 - \$6,703; 2003 - \$6,703)	57,362	57,521
Due from the State	23,839	12,781
Prepaid insurance	<u>16,457</u>	<u>18,726</u>
Total current assets	<u>\$ 402,756</u>	<u>\$ 316,278</u>
RESTRICTED ASSETS		
Cash and cash equivalents	\$ -	\$ 143,603
Certificates of deposit	<u>293,581</u>	<u>143,635</u>
Total restricted assets	<u>\$ 293,581</u>	<u>\$ 287,238</u>
PROPERTY AND EQUIPMENT, net	<u>\$2,427,771</u>	<u>\$1,760,772</u>
OTHER ASSETS		
Insurance deposit	<u>\$ 806</u>	<u>\$ 806</u>
Total assets	<u>\$3,124,914</u>	<u>\$2,365,094</u>

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 57,633	\$ 52,431
Interim construction financing	447,749	-
Accounts payable	78,796	2,836
Retainage payable	54,822	16,371
Accrued liabilities	2,268	4,513
Interest payable	4,703	4,703
Meter deposits	145,281	138,938
New line deposits and membership	<u>350</u>	<u>350</u>
Total current liabilities	\$ 791,602	\$ 220,142
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	<u>1,263,185</u>	<u>1,323,634</u>
Total liabilities	<u>\$2,054,787</u>	<u>\$1,543,776</u>
NET ASSETS		
Unrestricted	\$ 736,315	\$ 602,583
Temporarily restricted	<u>333,812</u>	<u>218,735</u>
Total net assets	<u>\$1,070,127</u>	<u>\$ 821,318</u>
Total liabilities and net assets	<u>\$3,124,914</u>	<u>\$2,365,094</u>

COTEAU WATER SYSTEM, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Service and delinquent charges	\$ 609,463	\$ -	\$ 609,463
Connection and reconnection fees	31,362	-	31,362
Interest income	3,966	-	3,966
Donations	-	7,063	7,063
Contribution from the State	-	110,575	110,575
Membership fees	5,250	-	5,250
Miscellaneous	7,461	-	7,461
Net assets released from restrictions:			
Expiration of time restrictions	<u>2,561</u>	<u>(2,561)</u>	<u>-</u>
Total revenues and other support	<u>\$ 660,063</u>	<u>\$ 115,077</u>	<u>\$ 775,140</u>
EXPENSES			
Professional fees	\$ 6,100	\$ -	\$ 6,100
Bad debts	371	-	371
Chemicals	51,174	-	51,174
Connection fees	30,508	-	30,508
Consultants	533	-	533
Depreciation	66,131	-	66,131
Director's travel and expense	677	-	677
Emergency response plan	8,000	-	8,000
Insurance	22,584	-	22,584
Interest	93,084	-	93,084
Legal and professional fees	3,002	-	3,002
Line location	1,401	-	1,401
Meter reading	22,040	-	22,040
Miscellaneous	520	-	520
Office supplies	10,570	-	10,570
Repairs and maintenance	42,851	-	42,851
Road permits	975	-	975
Salaries	119,252	-	119,252
Security	502	-	502
Taxes	11,507	-	11,507
Utilities	<u>34,549</u>	<u>-</u>	<u>34,549</u>
Total expenses	<u>\$ 526,331</u>	<u>\$ -0-</u>	<u>\$ 526,331</u>
Change in net assets	\$ 133,732	\$ 115,077	\$ 248,809
Net assets, beginning	<u>602,583</u>	<u>218,735</u>	<u>821,318</u>
Net assets, ending	<u>\$ 736,315</u>	<u>\$ 333,812</u>	<u>\$ 1,070,127</u>

See Notes to Financial Statements.

COTEAU WATER SYSTEM, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Service and delinquent charges	\$ 597,442	\$ -	\$ 597,442
Connection and reconnection fees	44,705	-	44,705
Interest income	8,377	-	8,377
Donations	-	12,765	12,765
Contribution from the State	-	127,812	127,812
Membership fees	5,375	-	5,375
Miscellaneous	6,426	-	6,426
Net assets released from restrictions:			
Expiration of time restrictions	<u>2,395</u>	<u>(2,395)</u>	<u>-</u>
Total revenues and other support	<u>\$ 664,720</u>	<u>\$ 138,182</u>	<u>\$ 802,902</u>
EXPENSES			
Professional fees	\$ 5,600	\$ -	\$ 5,600
Bad debts	2,355	-	2,355
Chemicals	54,275	-	54,275
Connection fees	40,327	-	40,327
Consultants	3,026	-	3,026
Depreciation	62,287	-	62,287
Director's travel and expense	393	-	393
Employee benefits	1,328	-	1,328
Insurance	18,790	-	18,790
Interest	97,605	-	97,605
Legal and professional fees	634	-	634
Line location	1,426	-	1,426
Meter reading	20,775	-	20,775
Miscellaneous	1,432	-	1,432
Office supplies	13,792	-	13,792
Repairs and maintenance	31,173	-	31,173
Salaries	116,028	-	116,028
Security	502	-	502
Taxes	9,471	-	9,471
Utilities	<u>30,288</u>	<u>-</u>	<u>30,288</u>
Total expenses	<u>\$ 511,507</u>	<u>\$ -0-</u>	<u>\$ 511,507</u>
Change in net assets	\$ 153,213	\$ 138,182	\$ 291,395
Net assets, beginning	<u>449,370</u>	<u>80,553</u>	<u>529,923</u>
Net assets, ending	<u>\$ 602,583</u>	<u>\$ 218,735</u>	<u>\$ 821,318</u>

See Notes to Financial Statements.

COTEAU WATER SYSTEM, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 646,234	\$ 644,476
State grant revenue received	99,517	115,031
Interest received	3,966	8,377
Other receipts	7,461	6,426
Cash paid to suppliers	(250,676)	(242,778)
Cash paid to employees	(119,252)	(116,028)
Interest paid	<u>(93,084)</u>	<u>(107,686)</u>
Net cash provided by operating activities	<u>\$ 294,166</u>	<u>\$ 307,818</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	\$ (300,717)	\$ (31,868)
Maturities of investments	30,000	30,068
Purchase and construction of fixed assets	<u>(608,820)</u>	<u>(182,038)</u>
Net cash used in investing activities	<u>\$ (879,537)</u>	<u>\$ (183,838)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	\$ (55,247)	\$ (40,647)
Increase in meter deposits	6,343	9,098
Proceeds from interim construction financing	<u>447,749</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>\$ 398,845</u>	<u>\$ (31,549)</u>
Net increase (decrease) in cash and cash equivalents	\$ (186,526)	\$ 92,431
Cash and cash equivalents, beginning	<u>360,853</u>	<u>268,422</u>
Cash and cash equivalents, ending	<u>\$ 174,327</u>	<u>\$ 360,853</u>

(continued)

COTEAU WATER SYSTEM, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)
 Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 248,809	\$ 291,395
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,131	62,287
Donated assets	(7,063)	(12,765)
(Increase) decrease in accounts receivable	159	(3,046)
Increase in due from the State	(11,058)	(12,781)
(Increase) decrease in prepaid insurance	2,269	(8,108)
Decrease in accounts payable	(2,836)	(885)
Increase (decrease) in accrued liabilities	(2,245)	1,802
Decrease in interest payable	-	(10,081)
Net cash provided by operations	<u>\$ 294,166</u>	<u>\$ 307,818</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:		
Donated capital additions	<u>\$ 7,063</u>	<u>\$ 12,765</u>

See Notes to Financial Statements.

COTEAU WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Coteau Water System, Inc. (the "Corporation") was incorporated in 1972 to construct, maintain, and operate a water system to provide services to individuals who acquire membership in the rural community of Iberia Parish.

The accounting and reporting practices of Coteau Water System, Inc. conform to generally accepted accounting principles (GAAP) for nonprofit organizations. Coteau Water System, Inc. is a nonprofit organization under the Internal Revenue Code Section 501(c)(12). The following is a description of certain significant accounting policies and practices:

Accounting basis:

The Corporation uses the accrual basis of accounting.

Cash and cash equivalents:

For the purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Property, plant and distribution system:

The cost of the assets recorded for the Corporation represents the actual cost of these assets. All items of property, plant, and equipment are recorded and depreciation is computed and recorded thereon, in accordance with generally accepted accounting principles for nonprofit organizations. In the absence of donor stipulations regarding how long contributed assets must be used, the Corporation has adopted a policy of implying a time restriction that expires over the useful life of the assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives for both the plant, equipment and the distribution system are as follows:

	<u>Years</u>
Auto and trucks	5
Office furniture and equipment	5 - 10
Fences	15
Buildings and equipment	10 - 50
Deep water wells	50
Other equipment	7 - 50
Ground storage tanks	50
Distribution system	10 - 50

NOTES TO FINANCIAL STATEMENTS

Advertising:

Advertising costs are expensed as incurred. Advertising expense was \$220 and \$1,430 for the years ending June 30, 2004 and 2003, respectively.

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 amount 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.

Concentrations of credit risk:

Financial instruments that potentially subject the Corporation to significant concentrations of credit risk consist primarily of cash and cash equivalents.

The Corporation places its cash and investments with high quality financial institutions. At times such amounts may be in excess of FDIC insurance limits. Credit risk with respect to receivables is generally diversified due to a large number of customers; however, the Corporation's customer base is limited to the rural area in Iberia Parish.

Income taxes:

Coteau Water System, Inc. (a nonprofit corporation), has been granted an exemption from income taxes as a nonprofit corporation under Section 501(c)(12) of the Internal Revenue Code.

Support and expenses:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction, that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities as net assets released from restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS

Comparative data:

Certain amounts in the 2003 financial statements have been reclassified to the 2004 presentation. Except as discussed in Note 10, such reclassifications had no material effect on net assets as previously reported.

Note 2. Restricted Assets

In accordance with provisions of loan covenants with the United States Department of Agriculture ("USDA"), the System is required to make deposits into a reserve account until such time that they accumulate \$148,300. Expenditures from the reserve account can only be made with prior written approval of the USDA and can only be used for repairs, improvements and other capital expenditures of the System; and, in certain circumstances, debt service payments. Additionally, meter deposits being held by the Corporation in the amount of \$145,281 are considered restricted assets at June 30, 2004.

Note 3. Property, Plant, and Distribution System

Property, plant and distribution system consisted of the following components at June 30:

	<u>2004</u>	<u>2003</u>
Land	\$ 68,140	\$ 68,140
Auto and trucks	25,031	23,274
Office furniture and equipment	22,490	22,383
Fences	11,978	11,978
Buildings and equipment	100,970	93,449
Deep water wells	217,354	217,354
Other equipment	742,989	737,454
Ground storage tanks	33,240	33,240
Distribution system	1,138,368	1,131,305
Construction in progress	<u>876,836</u>	<u>177,689</u>
	\$3,237,396	\$2,516,266
Less: Accumulated Depreciation	<u>809,625</u>	<u>755,494</u>
	<u>\$2,427,771</u>	<u>\$1,760,772</u>

Depreciation expense was \$66,131 and \$62,287 for the years ended June 30, 2004 and 2003, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

The Corporation has various outstanding rural development loans with the United States Department of Agriculture ("USDA"). At June 30, 2004, there were 10 loans with original maturities of 40 years and one loan with an original maturity of 20 years. Interest is fixed at rates of 5.0%, 7.0% and 9.5%. Terms on the loans range from annual payments of principal and interest to monthly payments of principal and interest with aggregate annual payments of principal and interest amounting to \$148,315. The indebtedness is collateralized by a security interest in the plant and equipment.

Although debt service requirements are based on annual and monthly debt service obligations, the system makes semi-annual payments of principal and interest based on one-half of the annual requirement or six months of monthly payments of principal and interest. In light of the payment methods all loans are current and the system has prepaid sufficient amounts of principal to allow them to service the debt in this manner. Original maturities of the loans would have resulted in a final payments coming due in 2029. Based on the present manner of debt service based on semi-annual installments will result in a final payment occurring in the 2026 fiscal year.

Based on the system's current semi-annual payment method, the amounts necessary to amortize all debt outstanding at June 30, 2004 is as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total Debt</u> <u>Service</u>
2005	\$ 90,699	\$ 57,633	\$ 148,332
2006	86,661	61,671	148,332
2007	82,327	65,307	147,634
2008	77,751	63,993	141,744
2009	73,120	66,776	139,896
2010-2014	290,525	336,428	626,953
2015-2019	187,683	298,107	485,790
2020-2024	74,944	349,389	424,333
2025-2026	1,926	21,514	23,440
	<u>\$ 965,636</u>	<u>\$ 1,320,818</u>	<u>\$ 2,286,454</u>

In addition to the above, the Corporation received an interim construction loan during the fiscal year. The Corporation has not fully drawn on the loan as of June 30, 2004. The balance of the interim loan at June 30, 2004 is \$447,749 and is reported as current as amortization does not begin until July 2005. The amount of interest capitalized for the year ended June 30, 2004 related to this interim loan was \$10,829.

NOTES TO FINANCIAL STATEMENTS

Note 5. Employee Benefit Plans

Coteau Water System, Inc. established a Simple Employee Pension ("Simple") retirement plan for its employees. The system will match the employee's contributions into the plan up to 3% of compensation. The plan was inactive for the 2003 calendar year and was resumed January 1, 2004. Therefore, employer matches for the fiscal years ending June 30, 2004 and 2003 are \$-0- and \$1,328, respectively.

Note 6. Board of Directors

The Board of Directors consists of seven members who serve without compensation. Board members and their service terms are as follows:

Alton Huval, President	September 2006
Daniel Evans, Vice-President	September 2005
Philip Monte, Secretary	September 2006
Jean B. Maturin, Treasurer	September 2005
Russell J. Romero	September 2004
Carrol Romero, Sr.	September 2005
Terry LeBlanc	September 2005
Henry Romero	September 2004

Note 7. New Lines Deposits and Memberships

The water system collected memberships and deposits from potential customers along the latest extension. These are being carried as a current liability until the service is provided, at which point they will be transferred to meter deposits and members' investments.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Remaining estimated useful lives of contributed property and equipment	\$ 95,425	\$ 90,923
State DOTD contributions	<u>238,387</u>	<u>127,812</u>
	<u>\$ 333,812</u>	<u>\$ 218,735</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the expiration of time for the year ended June 30:

	<u>2004</u>	<u>2003</u>
Time restrictions expired:		
Expired portion of estimated useful lives of contributed property and equipment	<u>\$ 2,561</u>	<u>\$ 2,395</u>

Note 10. Prior Period Adjustment

The following errors were discovered in the current year for which the prior year financial statements were restated: 1) The amount of funding from DOTD was not reflected as revenue and the amount owed to the Corporation at year end was not recorded as a receivable, and 2) The portion of the water relocation project expenses funded by DOTD were not included in construction in progress at year end. These errors had the effect of understating temporarily restricted revenue by \$127,812, understating receivables by \$12,781, understating net property and equipment by \$163,718, understating retainage payable by \$16,371, and overstating expenses by \$32,316. As a result, the change in net assets and the ending net assets were understated by \$160,128 at June 30, 2004.

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SUPPLEMENTARY INFORMATION

COTEAU WATER SYSTEM, INC.

STATEMENT OF ACTIVITIES - BUDGET AND ACTUAL

Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance - Favorable (Unfavorable)	2003 Actual
	Budget	Actual		
REVENUES AND OTHER SUPPORT				
Service and delinquent charges	\$ 591,000	\$ 609,463	\$ 18,463	\$ 597,442
Connection and reconnection fees	26,180	31,362	5,182	44,705
Interest income	7,000	3,966	(3,034)	8,377
Donations	-	7,063	7,063	12,765
Contribution from the State	-	110,575	110,575	127,812
Membership fees	1,000	5,250	4,250	5,375
Miscellaneous	2,350	7,461	5,111	6,426
Total revenues and other support	\$ 627,530	\$ 775,140	\$ 147,610	\$ 802,902
EXPENSES				
Professional fees	\$ 6,000	\$ 6,100	\$ (100)	\$ 5,600
Bad debts	2,000	371	1,629	2,355
Chemicals	67,618	51,174	16,444	54,275
Connection fees	22,000	30,508	(8,508)	40,327
Consultants	7,000	533	6,467	3,026
Depreciation	62,000	66,131	(4,131)	62,287
Director's travel and expense	500	677	(177)	393
Emergency response plan	-	8,000	(8,000)	-
Employee benefits	3,150	-	3,150	1,328
Insurance	31,433	22,584	8,849	18,790
Interest	90,000	93,084	(3,084)	97,605
Legal and professional fees	1,500	3,002	(1,502)	634
Line location	1,500	1,401	99	1,426
Meter reading	20,000	22,040	(2,040)	20,775
Miscellaneous	2,000	520	1,480	1,432
Office supplies	11,500	10,570	930	13,792
Repairs and maintenance	83,400	42,851	40,549	31,173
Road permits	-	975	(975)	-
Salaries	123,900	119,252	4,648	116,028
Security	575	502	73	502
Subcontractors	20,000	-	20,000	-
Taxes	25,000	11,507	13,493	9,471
Utilities	35,500	34,549	951	30,288
Total expenses	\$ 616,576	\$ 526,331	\$ 90,245	\$ 511,507
Change in net assets	\$ 10,954	\$ 248,809	\$ 237,855	\$ 291,395
Net assets, beginning		821,318		529,923
Net assets, ending		\$1,070,127		\$ 821,318

COTEAU WATER SYSTEM, INC.

MONTHLY WATER RATES

June 30, 2004

The monthly retail water rates in effect at June 30, 2004, were as follows:

Residential customers:

First 2,000 gallons per month	\$12.00
Each 1,000 gallons thereafter	\$ 2.75

Commercial customers:

First 3,000 gallons per month	\$18.00
Each 1,000 gallons thereafter	\$ 2.75

COTEAU WATER SYSTEM, INC.

SCHEDULE OF INSURANCE IN FORCE
June 30, 2004
(Unaudited)

<u>Insurer</u>	<u>Policy Number</u>
Dupuy-Jefferson-Waguespack Insurance Co. 105 W. Main Street New Iberia, LA 70560	FBP9534219
Louisiana Workers' Compensation Corporation 2237 S. Acadian Thruway, Suite 400 Baton Rouge, LA 70808	4907
Dupuy-Jefferson-Waguespack Insurance Co. 105 W. Main Street New Iberia, LA 70560	02-LX-6341991-3/000
Dupuy-Jefferson-Waguespack Insurance Co. 105 W. Main Street New Iberia, LA 70560	406CG7942
Dupuy-Jefferson-Waguespack Insurance Co. 105 W. Main Street New Iberia, LA 70560	02EIL00035
Dupuy-Jefferson-Waguespack Insurance Co. 105 W. Main Street New Iberia, LA 70560	02-LX-6341991-3/000

<u>Risk Covered</u>	<u>Policy Limits</u>	<u>Expiration Date</u>
Boiler and Machine Insurance	\$600,000	2/4/05
Workers Compensation and Employer Liability	\$100,000	12/11/04
Automobile Insurance -		5/5/05
Bodily Injury	\$300,000	
Property damage	\$300,000	
Uninsured motorist	\$300,000	
Fidelity Bond (covers four employees)	\$190,000 per person	5/5/05
Pollution Insurance	\$1,000,000 per occurrence \$2,000,000 policy limit	10/18/04
Casualty Insurance-		5/5/05
General Liability:		
Personal Injury	\$1,000,000	
Products-Completed Operations	\$1,000,000	
Fire Damage	\$ 100,000	
Medical Expense	\$ 5,000	
Property Damage:		
Blanket Building and Personal Property	\$1,315,915	

COTEAU WATER SYSTEM, INC.

SCHEDULE OF AGED ACCOUNTS RECEIVABLE

June 30, 2004

Less than 30 days	\$51,949
31 to 60 days	4,578
61 to 90 days	408
91 to 120 days	161
Over 120 days	<u>6,969</u>
Total accounts receivable	<u>\$64,065</u>

COTEAU WATER SYSTEM, INC.
COMMERCIAL AND RESIDENTIAL CUSTOMERS
Year Ended June 30, 2004

Commercial customers -	
Meters under ¾"	51
Meters over ¾"	10
Residential customers -	
Non-minority	1,836
Minority	<u>239</u>
Total customers	<u>2,136</u>

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BROUSSARD, POCHE', LEWIS & BREAU, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

146 W. Main St.
P.O. Box 9631
New Iberia, Louisiana
70562-9631
phone: (337) 364-4554
fax: (337) 364-6664

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

Other Offices:

Lafayette, LA
(337) 988-4930

Opelousas, LA
(337) 942-5217

Abbeville, LA
(337) 898-1497

Crowley, LA
(337) 783-0650

Church Point, LA
(337) 684-2855

Eugene C. Gilder, CPA*
Donald W. Kelley, CPA*
Herbert Lemoine II, CPA*
Frank A. Stagno, CPA*
Scott J. Broussard, CPA*
L. Charles Abshire, CPA*
Kenneth R. Dugas, CPA*
P. John Blanchet III, CPA*
Stephen L. Lambousy, CPA*
Craig C. Babineaux, CPA*
Peter C. Borrello, CPA*
George J. Trappey III, CPA*
Gregory B. Milton, CPA*
S. Scott Soileau, CPA*
Patrick D. McCarthy, CPA*
Martha B. Wyatt, CPA*
Troy J. Breaux, CPA*
Fayette T. Dupré, CPA*
Mary A. Castille, CPA*
Joey L. Breaux, CPA*
Terrel P. Dressel, CPA*

Retired:

Sidney L. Broussard, CPA* 1980
Leon K. Poché, CPA 1984
James H. Breaux, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA* 1992
Geraldine J. Wimberly, CPA* 1995
Rodney L. Savoy, CPA* 1996
Larry G. Broussard, CPA* 1997
Lawrence A. Cramer, CPA* 1999
Michael P. Crochet, CPA* 1999
Ralph Friend, CPA 2002

Members of American Institute of
Certified Public Accountants
Society of Louisiana Certified
Public Accountants

To the Board of Directors
Coteau Water System, Inc.
New Iberia, Louisiana

We have audited the financial statements of Coteau Water System, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 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 Coteau Water System, Inc.'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 Coteau Water System, Inc.'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 Coteau Water System, Inc.'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 #2004-1.

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. 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. However, we believe the above reportable condition to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, Louisiana Legislative Auditor, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

Broussard, Locke, Lewis + Brant, P.L.P.

New Iberia, Louisiana
August 31, 2004

COTEAU WATER SYSTEM, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

We have audited the financial statements of Coteau Water System, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 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. Our audit of the financial statements as of June 30, 2004, resulted in an unqualified opinion.

Section I. Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses	<u>X</u>	Yes	<u> </u>	No
Reportable Conditions	<u>X</u>	Yes	<u> </u>	No

Compliance

Compliance Material to Financial Statements	<u> </u>	Yes	<u>X</u>	No
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Section II. Financial Statement Findings

#2004-1 Segregation of Duties

Finding: The Corporation does not have an adequate segregation of duties in the administrative office. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Corporation may not be large enough to permit an adequate segregation of duties for an effective system of internal control procedures, it is important that you be aware of this condition.

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Corporation should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

COTEAU WATER SYSTEM, INC.

SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2004

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

#2003-1 Segregation of Duties

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Corporation should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

Current Status: This finding is included again in the current year's schedule of findings and questioned costs as item #2004-1. The Corporation has provided as much segregation as possible with the resources available.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

There were no matters reported in a separate management letter for the year ended June 30, 2003.

COTEAU WATER SYSTEM, INC.

4104 Coteau Road (Hwy. 88) • New Iberia, LA 70560
Phone (337) 367-6111 • Fax (337) 367-6112

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September 2, 2004

Mr. Steve J. Theriot
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Coteau Water System, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm:
Broussard, Poche', Lewis & Breaux, L.L.P.
Certified Public Accountants
Post Office Box 61400
Lafayette, Louisiana 70596-1400

Audit period: July 1, 2003 through June 30, 2004.

The finding from the 2004 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

Section II - Financial Statement Findings

2004-1 Segregation of Duties

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Corporation should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

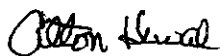
Action Taken: Management has ensured as much as possible based on available resources. We will continue to monitor the situation; however, adequate segregation is not feasible.

Mr. Steve Theriot
Legislative Auditor
State of Louisiana
September 4, 2004
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If the Legislative Auditor has questions regarding this plan, please call Shirley Huval at (337)367-6111.

Sincerely yours,

Coteau Water System, Inc.



Alton Huval
President