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EBARB WATERWORKS DISTRICT NO. 1

**FINANCIAL STATEMENTS, ADDITIONAL INFORMATION,
INTERNAL CONTROL AND COMPLIANCE**

YEAR ENDED DECEMBER 31, 1995

with

INDEPENDENT AUDITOR'S REPORTS

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 25 1996



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS

To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

We have audited the accompanying general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of and for the year ended December 31, 1995, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of Ebarb Waterworks District No. 1. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 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. 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 Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of December 31, 1995, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of Ebarb Waterworks District No. 1. Such information has not been subjected to the auditing procedures applied in the audit of the component unit financial statements and, accordingly, we do not express an opinion or any other form of assurance on it.

In accordance with Government Auditing Standards, we have also issued a report dated August 9, 1996, on our consideration of the District's internal control structure and a report dated August 9, 1996 on its compliance with laws and regulations.

May & Company

Vicksburg, Mississippi
August 9, 1996

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**EBARB WATERWORKS DISTRICT NO. 1
FINANCIAL STATEMENTS, ADDITIONAL INFORMATION,
INTERNAL CONTROL AND COMPLIANCE
YEAR ENDED DECEMBER 31, 1995**

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**EBARB WATERWORKS DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 1995**

ASSETS

CURRENT ASSETS:

Cash	\$ 22,682
Accounts receivable, net	<u>26,001</u>
Total current assets	<u>48,683</u>

PROPERTY, PLANT AND EQUIPMENT:

Land	72,530
Plant	1,459,212
Mains	2,023,239
Pumps	99,861
Services	229,680
Meters	536,674
Construction in progress	<u>45,658</u>
	4,466,854
Less accumulated depreciation	<u>664,005</u>
Net property, plant and equipment	<u>3,802,849</u>

OTHER ASSETS-

Restricted cash and cash equivalents	<u>1,364</u>
Total other assets	<u>1,364</u>
Total assets	<u>\$ 3,852,896</u>

See accompanying notes to financial statements.

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 7,596
Accounts payable - other	341,504
Accrued interest payable	11,543
Other accrued expenses	1,667
Current maturities of long-term debt	<u>37,022</u>
 Total current liabilities	 399,332

LONG-TERM DEBT, net of current maturities 3,037,478

CONTINGENCIES

FUND EQUITY:

Contributed capital, net of \$252,531 of accumulated amortization	<u>893,469</u>
Retained earnings (deficit):	
Reserved for revenue bonds	1,364
Unreserved deficit	<u>(478,747)</u>
 Total retained earnings (deficit)	 <u>(477,383)</u>
 Total fund equity	 <u>416,086</u>
 Total liabilities and fund equity	 \$ <u>3,852,896</u>

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1995**

OPERATING REVENUES:

Water sales	\$ 431,620
Other fees	52,643
Miscellaneous	<u>12,895</u>
 Total operating revenues	 <u>497,158</u>

OPERATING EXPENSES:

Water purchased	101,517
Water treatment	49,252
Salaries	7,736
Repairs and maintenance	39,558
Depreciation	108,022
Management expense	12,097
Utilities and telephone	23,430
Postage	3,505
Insurance	7,755
Professional fees	4,578
Transportation	1,375
Bad debts	921
Taxes	2,037
Other costs and expenses	<u>1,033</u>
 Total operating expenses	 <u>362,816</u>

OPERATING INCOME

134,342

NONOPERATING REVENUES (EXPENSES):

Interest on bonds	(156,006)
Investment income	<u>54</u>

Net nonoperating revenues (expenses) (155,952)

NET LOSS

(21,610)

Amortization of fixed assets acquired with
restricted federal grant

28,650

INCREASE IN RETAINED EARNINGS

7,040

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS - CONTINUED
YEAR ENDED DECEMBER 31, 1995**

RETAINED EARNINGS (DEFICIT) - as originally reported	(655,414)	
Correction of prior period errors	<u>170,991</u>	
RETAINED EARNINGS (DEFICIT) - beginning, restated		<u>(484,423)</u>
RETAINED EARNINGS (DEFICIT) - ending		\$ <u>(477,383)</u>

See accompanying notes to financial statements.

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1995**

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income	\$ 134,342
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	108,022
Changes in:	
Accounts receivable	11,987
Accounts payable	(30,019)
Accounts payable - other	75,697
Accrued interest payable	(9,194)
Other accrued expenses	<u>(1,572)</u>
Net cash provided by operating activities	<u>289,263</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments on obligations	(25,800)
Capital expenditures	(101,211)
Interest paid	<u>(156,006)</u>
Net cash used in capital and related financing activities	<u>(283,017)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Withdrawals from restricted cash and cash equivalents	<u>9,000</u>
Net cash provided by investing activities	<u>9,000</u>
Net increase in cash	15,246

CASH, at beginning of year	<u>7,436</u>
CASH, at end of year	\$ <u>22,682</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES-

During the year ended December 31, 1995, the District charged \$28,650 in amortization against contributed capital.

See accompanying notes to financial statements.

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1995**

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Ebarb Waterworks District No. 1, (the "District") is a component unit of Sabine Parish. It was created by Louisiana Revised Statute 33:3811 adopted by the Police Jury of Sabine Parish on March 16, 1977. The governing body of the District consists of a four member Board of Commissioners which is appointed by the Sabine Parish Policy Jury.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below:

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.

Financial Reporting Entity:

This report includes the fund which is controlled by the Board of Commissioners. No potential component units of the District are known to exist which would be accountable to, or fiscally dependent on, the District.

Fund Accounting:

The accounts of the District are organized on the basis of a fund, which is considered to be a separate accounting entity. The operations of the fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses. The following fund is used by the District:

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1995**

NOTE A. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary fund type:

Enterprise Fund:

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the general public are financed through user charges.

The deficit in the enterprise fund retained earnings is expected to be liquidated by future revenue growth generated by the recent expansions of the system.

Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund type are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by the proprietary fund type. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents:

The District considers all highly liquid investments, with an original maturity of three months or less, to be cash equivalents.

Uncollectible Allowance:

Uncollectible amounts are recognized as bad debts through the establishment of an allowance account at the time information becomes available indicating the uncollectibility of a particular receivable. There was no such account at December 31, 1995.

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1995**

NOTE A. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Plant and Equipment:

Additions to proprietary fund type fixed assets are recorded at cost or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest incurred during the construction phase of proprietary fixed assets is reflected in the capitalized value of the asset constructed.

Property, plant and equipment are depreciated in the proprietary fund using the straight line method over the estimated useful lives of the related assets.

The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Accumulated Compensated Absences:

No liability is recorded for nonvesting accumulating rights to receive vacation or sick pay benefits.

Membership Fees:

Membership fees are assessed for the privilege of obtaining water service from the District. These fees are nonrefundable. The fees are included in income for the period received.

NOTE B. DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 1995, the carrying amount of the District's deposits (checking and savings) was \$24,046 and the bank balance was \$23,782. The bank balance was adequately covered by federal depository insurance (Category 1). There were no repurchase or reverse repurchase agreement at December 31, 1995.

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED DECEMBER 31, 1995**

NOTE C. PROPERTY, PLANT AND EQUIPMENT

A summary of the fixed assets and depreciation at December 31, 1995 is as follows:

<u>Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Current Depreciation</u>
Land	\$ 72,530	\$ -	\$ 72,530	\$ -
Plant	1,459,212	217,218	1,241,994	36,243
Mains	2,023,239	314,839	1,708,400	50,247
Pumps	99,861	14,739	85,122	2,497
Services	229,680	35,775	193,905	5,701
Meters	536,674	81,434	455,240	13,334
Construction in progress	<u>45,658</u>	<u>-</u>	<u>45,658</u>	<u>-</u>
	<u>\$4,466,854</u>	<u>\$ 664,005</u>	<u>\$3,802,849</u>	<u>\$ 108,022</u>

NOTE D. LONG-TERM DEBT

At December 31, 1995, long-term debt consists of the following:

	<u>1995</u>
5% revenue bonds payable to RECD, dated February 4, 1982; payable in annual installments of \$25,673, including interest, through 2022 and collateralized by a pledge and assignment of water revenues.	\$ 375,957
5% revenue bonds payable to RECD, dated December 20, 1990; payable in annual installments of \$116,071, including interest, through 2030 and collateralized by a pledge and assignment of water revenues.	1,906,486

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1995**

NOTE D. LONG-TERM DEBT - CONTINUED

5% reamortized loan payable to RECD, dated February 4, 1991; payable in annual installments of \$8,808, including interest, through 2022 and collateralized by a pledge and assignment of water revenues.	125,748
5.25% revenue bond payable to RECD, dated June 23, 1993; payable in annual installments of \$41,013, including interest, through 2033 and collateralized by a pledge and assignment of water revenues.	<u>666,309</u>
	<u>3,074,500</u>
Less current maturities	<u>37,022</u>
	<u>\$ 3,037,478</u>

Anticipated future debt retirement over the next five years and thereafter is as follows at December 31, 1995:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1996	\$ 37,022	\$ 154,543	\$ 191,565
1997	38,932	152,633	191,565
1998	40,941	150,624	191,565
1999	43,053	148,512	191,565
2000	45,275	146,290	191,565
Thereafter	<u>2,869,277</u>	<u>2,577,760</u>	<u>5,447,037</u>
	<u>\$ 3,074,500</u>	<u>\$ 3,330,362</u>	<u>\$6,404,862</u>

The following is a summary of revenue bond transactions of the District for the year ended December 31, 1995:

Bonds payable at January 1, 1995	\$3,100,300
Bonds retired	<u>25,800</u>
Bonds payable at December 31, 1995	<u>\$3,074,500</u>

The bonds are secured and payable in principal and interest solely from a pledge of the income and revenues to be derived from the operation of the system.

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1995**

NOTE D. LONG-TERM DEBT - CONTINUED

The revenue bonds require that the District establish a sinking, reserve, and depreciation and contingency account. Monthly amounts are to be deposited into the sinking accounts equal to one-twelfth of the total amount of principal and interest falling due in the ensuing year. A sum at least equal to 5% of the annual debt payment should be deposited monthly into the reserve account until such time as there has been accumulated a total equal to the highest combined principal and interest payable in any future year. An amount specifically designated in the resolution is to be deposited into the depreciation and contingency account on a monthly basis.

Due to insufficient revenues, the District was unable to make monthly deposits as specified above during the year ended December 31, 1995. Therefore, for the year ended December 31, 1995, the reserve and depreciation and contingency accounts were underfunded. Funds are not required to be accumulated in a revenue bond sinking fund to make annual principal and interest payments. Instead, monthly payments of principal and interest are made to RECD. RECD has agreed not to exercise their right to call these bonds during the next year.

The following is a summary of the transactions in the reserve and depreciation and contingency accounts:

	<u>Reserve Account</u>	<u>Depreciation and Contingency Account</u>	<u>Total</u>
Balance at January 1, 1995	\$ 6,625	\$ 3,685	\$ 10,310
Withdrawals during 1995	(6,000)	(3,000)	(9,000)
Interest earned in 1995	<u>29</u>	<u>25</u>	<u>54</u>
Balance at December 31, 1995	\$ <u>654</u>	\$ <u>710</u>	\$ <u>1,364</u>

Continued.....

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1995**

NOTE E. CONTINGENCIES

The District is the defendant in two lawsuits filed by Belmont Water System over ownership of a 6.2 mile section of water line constructed by UDS Corporation. The District believes the suits are completely without merit and intends to vigorously defend its position.

The District is also in a separate dispute with Belmont Water System regarding the District's contract with Belmont to purchase water. No lawsuits have been filed and the District believes it has complied with every aspect of the contract and no liability will result from this dispute.

Losses, if any, arising from the above lawsuits and disputes cannot be estimated as of December 31, 1995.

NOTE F. WATER SUPPLY

Although other sources can be made available, the District currently obtains its water supply from the Sabine River Authority (57%) and Belmont Water System (43%).

NOTE G. CONTRIBUTED CAPITAL

The District received a grant of \$601,000 from Farmers Home Administration in 1982 for construction of treatment and pumping facilities and the distribution system. The grant was used to fund 58% of the construction costs with the remaining 42% funded with long-term debt. In 1990 and 1991, the District received a grant of \$545,000 from the Farmers Home Administration to finance 21% of the expansion of the water system which was completed during 1991. The amount of fixed assets constructed or acquired with grant funds is shown as contributed capital on the balance sheet. The contributed capital amount is reduced each year by the amount of amortization expense recognized on fixed assets constructed or acquired with grant funds.

NOTE H. LEASES

Ebarb Waterworks District No. 1, as lessee, has executed a lease with the Louisiana Department of Transportation and Development, Sabine River Authority. The lease is for thirty-seven and one-half acres of land and expires on September 18, 2009, with an option for an additional thirty years. The agreement requires no lease payments, but rather the development of recreational facilities for residents.

Continued.....

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1995

NOTE I. MANAGEMENT AGREEMENT

On October 21, 1987, the District entered into an agreement with Utility Data Service Corporation (UDS) for operation and management of the District. On March 30, 1990, the agreement was renewed for a period of five years and on July 15, 1994, the agreement was renewed for an additional five years. The agreement provides a fee structure for various activities performed by UDS in the operation of the District's water treatment and distribution system. The agreement may be canceled by the Board of Commissioners at the end of three years from the date of the renewal with or without cause. For the year ended December 31, 1995, UDS billed the District \$166,061 for management and operation of the District. At December 31, 1995, the District owes UDS \$341,504 for fees.

NOTE J. CORRECTION OF PRIOR PERIOD ERRORS

During 1994, the district established a liability account for customer's deposits. These deposits are actually nonrefundable fees and the prior retained earnings balance has been adjusted to reflect these transactions. Additionally, property, plant and equipment has been adjusted for the prior year to reflect capital additions and improvements incorrectly charged to expense in 1994. Also during 1994, water purchased during the year was not correctly expensed and accrued interest payable was overstated. Beginning retained earnings has been adjusted for these errors.

ADDITIONAL INFORMATION

**EBARB WATERWORKS DISTRICT NO. 1
SCHEDULE OF WATER RATES AND FEES (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 1995**

<u>Classification</u>	<u>Tariff</u>	<u>Rate</u>
Residential	Monthly minimum for 1,000 gallons	\$ 14.50
	Per 1,000 gallons thereafter	3.20
	Testing and reports	1.50
Institutional	Monthly minimum for 10,000 gallons	50.00
	Per 1,000 gallons thereafter	3.20
	Testing and reports	1.50
Industrial	Monthly minimum for 10,000 gallons	100.00
	Per 1,000 gallons thereafter	1.25
	Testing and reports	1.50
Mobile Home Park	Monthly minimum for 10,000 gallons	35.00
	Per 1,000 gallons thereafter	3.20
	Testing and reports	1.50
Agricultural	Quarterly minimum for 10,000 gallons	14.50
	Per 1,000 gallons thereafter	1.25
Oakhill	Monthly minimum for 2,000 gallons	10.00
	Per 1,000 gallons thereafter	1.00
	Testing and reports	1.50
Membership Fee	Membership Fee for Water Service (Transferable Only)	50.00
NSF Check Fee	NSF Account Return Charge	15.00
Connection Fee	Account Set-up Charge (Non-Transferable)	15.00
Transfer Service	Transfer Service to New Address/Location	10.00
Tap/Meter Fee	Install New Meter/Service (Same Road Side Tap)*	300.00
Road Bore Charge	Install Road Bore for New Meter/Tap Service	250.00
Late Payment Fee	Late Fee after Last Day to Pay Net Amount Water Bill	10%
Disconnect Fee	Service Charge to Disconnect Water Service for Nonpayment	25.00
Damaged Tap Fee	Customer Damaged/Broke Cutoff or Disconnect Lock	62.50
Continued.....		

**EBARB WATERWORKS DISTRICT NO. 1
SCHEDULE OF WATER RATES AND FEES (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 1995**

The District had an average of 1,488 metered customers during 1995 (1,518 metered customers at December 31, 1995) with total water sales of \$458,508 (including \$26,888 of DHHR testing and reports fees) for an average monthly bill of \$25.68 per customer.

The District's Board of Commissioners are not paid for their service to the Board. However, each commissioner receives free water service from the District.

**EBARB WATER WORKS DISTRICT NO. 1
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 1995**

<u>Type</u>	<u>Policy Number</u>	<u>Company</u>	<u>Coverage</u>	<u>Expiration</u>
Property Damage	CL 6166564-1	American Indemnity Group	Ebarb Ward #1 - Tanks & Controls - \$50,000 Ebarb Ward #2 - Tanks & Controls - \$50,000 Aimwell Location - Tanks & Controls - \$150,000 Negreet Location - Tanks & Controls - \$100,000 Sabine River Authority Park Site 11 - Tanks & Controls - \$150,000	May 1, 1996
General Liability	BL 096 50 718032	Ohio Casualty Group	\$1,000,000	August 5, 1996
Worker's Compensation and Employers' Liability	7326	La. Home Builders	\$ 500,000	March 14, 1996
Employee Dishonesty	52-0006-01028-1948	Western Surety Insurance	\$ 300,000	March 3, 1996



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

We have audited the general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of and for the year ended December 31, 1995, and have issued our report thereon dated August 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement.

The management of Ebarb Waterworks District No. 1 is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

Page Two

In planning and performing our audit of the general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the general purpose financial statements.

We noted the following reportable conditions:

- **Criteria:** General ledger accounts should be reconciled to subsidiary ledger listing and vendor statements monthly.
- Condition:** During our testwork on accounts receivable and payable, we noted that monthly reconciliations were not being performed.
- Cause:** Such reconciliations have not been incorporated into the District's monthly procedures.
- Effect:** There is a substantial risk that errors or irregularities could occur in these accounts and not be detected in a timely manner.
- Recommendation:** The District should formally adopt such accounting procedures to be performed on, at least, a monthly basis.
- Management's Response:** These procedures have been incorporated into the monthly procedures.

Board of Directors
Ebarb Waterworks District No. 1
Noble, Louisiana

Page Three

- **Criteria:** Only necessary employees currently employed should be on account signature cards for bank accounts.
- Condition:** Our testwork on cash discovered a former employee listed on the savings accounts signature cards.
- Cause:** New signature cards were not completed when the employee left.
- Effect:** The District's savings accounts are at risk for improper withdrawals by former employees.
- Recommendation:** New account cards should be completed immediately and updated in a timely manner whenever there is a change in employment status by anyone on the card.
- Management's Response:** New cards have been filed on all accounts and new cards will be filed in a timely manner in the future.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, Legislative Auditor and the Board of Commissioners. However, this report is a matter of public record, and its distribution is not limited.

May + Company

Vicksburg, Mississippi
August 9, 1996



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

We have audited the general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of and for the year ended December 31, 1995, and have issued our report thereon dated August 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to Ebarb Waterworks District No. 1, is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instances of noncompliance that are required to be reported herein under Government Auditing Standards.

- **Criteria:** State law (Louisiana Revised Statute 24:513) requires that the audit be completed and issued within six months of the close of the entity's fiscal year.
- Condition:** The audit was not completed and issued within six month's of the close of the entity's fiscal year.
- Cause:** The District's predecessor auditor was engaged to perform the December 31, 1995 audit. However, the auditor withdrew from the engagement at a point where the District was unable to allow adequate time for timely completion of the audit by the subsequent auditor.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

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- Effect:** The District is in violation of state law.
- Recommendation:** We recommend that the auditors be engaged prior to the expiration of the District's fiscal year to allow adequate time for completion of the audit.
- Management's Response:** The withdrawal of the predecessor auditor led to the above referenced violation. Auditors will be engaged in the future to allow adequate time for completion of the audit within the timeframe specified by state law.
- **Criteria:** The resolution authorizing the revenue bonds requires that the District establish a reserve and depreciation and contingency account.
- Condition:** At December 31, 1995, the deposit requirements of the reserve and depreciation and contingency accounts have not been met.
- Cause:** The deposit requirements have not been met due to the financial condition of the District as well as the cash flow requirements to keep up with the growth of the District.
- Effect:** The District is in violation of the revenue bond resolution.
- Recommendation:** We recommend that the required deposits be made as soon as possible and that the District begin making the required monthly deposits to each account.
- Management's response:** Virtually all available financial resources have been used to fund system additions and improvements to keep up with the growth of the District and to enhance the water quality to existing customers. The deficits will be funded as monies become available.
- **Criteria:** The resolution authorizing the revenue bonds requires that all users of the system and any facilities thereof shall be billed on a uniform basis and no service shall be provided on any other basis nor provided free.
- Condition:** The District provided free water service to its Board of Commissioners.

To the Board of Commissioners
Ebarb Waterworks District No. 1
Noble, Louisiana

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Cause: The District provides compensation to its Board members by providing water service at no charge.

Effect: The District is in violation of the revenue bond resolution.

Recommendation: We recommend that the District provide Board compensation by a means that complies with the bond resolution.

Management's Response: Alternative compensation methods which are in compliance with the bond covenants will be utilized.

We considered these instances of noncompliance in forming our opinion on whether Ebarb Waterworks District No. 1 general purpose's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated August 9, 1996, on those general purpose financial statements.

This report is intended for the information of management, Legislative Auditor and the Board of Commissioners. However, this report is a matter of public record and its distribution is not limited.

May + Company

Vicksburg, Mississippi
August 9, 1996