

OFFICIAL
FILE COPY

DO NOT REMOVE

These operations
come from the
copy and FILE
into the FILE

KELLY WATER DISTRICT
Columbia, Louisiana

**General Purpose Financial Statements
With Independent Auditor's Report
As of and for the Two Years Ended
October 31, 1996**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or assigned, and to any 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.

APR 02 1997

Release Date _____

APR 02 1997
LEGISLATIVE AUDITOR
BATON ROUGE, LOUISIANA

KELLY WATER DISTRICT
Kelly, Louisiana

General Purpose Financial Statements
With Independent Auditor's Report
As of and for the Two Years Ended
October 31, 1996

C O N T E N T S

	Statement	Page No.
Independent Auditor's Report		3
General Purpose Financial Statements:		
Combined Balance Sheet, October 31, 1996 - All Fund Types and Account Groups	A	5
Governmental Fund Type - Debt Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balances - By Years - For The Two Years Ended October 31, 1996	B	7
Proprietary Fund Type - Enterprise Fund:		
Statement of Revenues, Expenses, and Changes in Retained Earnings - By Years - For the Two Years Ended October 31, 1996	C	8
Statement of Cash Flows - By Years - For the Two Years Ended October 31, 1996	D	9
Notes to the Financial Statements		11

C O N T E N T S

	Page No.
Independent Auditor's Reports Required by Government Auditing Standards:	
 Report on Compliance Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards	 21
 Report on Internal Control Structure Based on An Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards	 29

M. Carlson Dumas
CERTIFIED PUBLIC ACCOUNTANT

249 BRADSHAW ROAD • COLLEEN, LOUISIANA 71225 • TELEPHONE 516-644-5700

Independent Auditor's Report

**BOARD OF COMMISSIONERS
KELLY WATER DISTRICT
Kelly, Louisiana**

I have audited the general purpose financial statements of Kelly Water District, a component unit of the Caldwell Parish Police Jury, as of October 31, 1996, and for each of the years in the two year period then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the district's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my 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 I 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 financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material aspects, the financial position of Kelly Water District, as of October 31, 1996, and the results of its operations and cash flows of its proprietary fund for each of the years in the two year period then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated January 30, 1997, on my consideration of Kelly Water District's internal control structure and a report dated January 30, 1997, on the district's compliance with laws and regulations.



Carlson, Louisiana
January 30, 1997

**GENERAL PURPOSE FINANCIAL STATEMENTS
(OVERVIEW)**

KELLY WATER DISTRICT
 Kelly, Louisiana
 ALL FUND TYPES AND ACCOUNT GROUPS

Continued Balance Sheet, October 31, 1995

	GOVERNMENTAL FUND TYPE - DEBT SERVICE FUND	PROPRIETARY FUND TYPE - ENTERPRISE FUND	ACCOUNT GROUP - GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
ASSETS AND OTHER DEBITS				
Current assets:				
Cash	\$2,795	\$12,838		\$15,633
Accounts receivable - water sales (net of allowance for doubtful accounts)		6,969		6,969
Total current assets	2,795	19,797	\$0,000	22,592
Reversion assets - cash and cash equivalents		46,964		46,964
Property, plant and equipment (net of accumulated depreciation)		233,658		233,658
Amount available for debt service			\$2,193	2,193
Amount to be provided for retirement of general long-term debt			14,807	14,807
TOTAL ASSETS AND AND OTHER DEBITS	\$2,795	\$280,419	\$17,000	\$310,614
LIABILITIES AND FUND EQUITY				
Current liabilities (payable from current assets) - accounts payable				
	\$0,000	\$1,328	\$0,000	\$1,328
Current liabilities (payable from reversion assets)				
Revenue bonds payable		5,000		5,000
Customer deposits		7,459		7,459
Total current liabilities (payable from reversion assets)	\$0,000	12,459	\$0,000	12,459
Long-term liabilities:				
General obligation bonds payable			\$17,000	17,000
Revenue bonds payable		5,000		5,000
Total long-term liabilities	\$0,000	5,000	17,000	22,000
Total liabilities	\$0,000	17,459	17,000	34,459

(Continued)

KELLY WATER DISTRICT

Kelly, Louisiana

ALL FUND TYPES AND ACCOUNT GROUPS

Combined Balance Sheet, etc.

	GOVERNMENTAL FUND TYPE - DEBT SERVICE FUNDS	PROPRIETARY FUND TYPE - ENTERPRISE FUNDS	ACCOUNT GROUP - GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
Fund Equity:				
Contributed capital	NONE	\$95,000	NONE	\$95,000
Retained earnings:				
Reserved for revenue bonds		34,505		34,505
Unreserved - undesignated		152,317		152,317
Total retained earnings	NONE	186,822	NONE	186,822
Fund balance - reserved for debt service	\$2,183	90501	NONE	2,183
Total Fund Equity	2,183	281,732	NONE	283,915
TOTAL LIABILITIES AND FUND EQUITY	\$2,183	\$300,419	\$17,800	\$320,402

Conclusion:

The accompanying notes are an integral part of this statement.

KELLY WATER DISTRICT
Kelly, Louisiana
GOVERNMENTAL FUND TYPE - DEBT SERVICE FUND

Statement of Revenues, Expenditures, and
Changes in Fund Balance - By Years
For the Two Years Ended October 31, 1986

	YEAR ENDED	
	OCTOBER 31, 1986	1985
REVENUES		
Ad valorem taxes	\$6,834	\$6,854
Use of money and property - interest earnings	161	291
Total revenues	<u>6,995</u>	<u>7,145</u>
EXPENDITURES		
Debt service:		
Principal	8,000	8,000
Interest	1,155	1,595
Intergovernmental	248	241
Total expenditures	<u>9,399</u>	<u>9,836</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,404)	(2,691)
FUND BALANCES AT BEGINNING OF YEAR	<u>4,591</u>	<u>7,284</u>
FUND BALANCES AT END OF YEAR	<u>\$2,187</u>	<u>\$4,593</u>

The accompanying notes are an integral part of this statement.

KELLY WATER DISTRICT
 Kelly, Louisiana
PROPRIETARY FUND TYPE - ENTERPRISE FUND

Statement of Revenues, Expenses, and
 Changes in Retained Earnings - By Years
 For the Two Years Ended October 31, 1996

	YEAR ENDED OCTOBER 31,	
	1996	1995
OPERATING REVENUES		
Water sales	\$81,880	\$83,196
Connection fees	1,265	1,815
Total revenues	83,145	85,011
OPERATING EXPENSES		
Office expense	4,471	8,484
Repairs and maintenance	17,617	17,132
Utilities	6,911	9,900
Insurance	2,669	
Salaries	23,858	21,738
Payroll taxes	1,749	1,298
Depreciation	10,752	10,792
Other operating expenses	1,073	1,720
Total operating expenses	67,900	67,066
OPERATING INCOME	15,245	17,945
NON-OPERATING REVENUES (EXPENSES)		
Interest earned on deposits	2,468	1,999
Other non-operating income		995
Interest expense	(3,800)	(4,831)
Total non-operating revenues (expenses)	(1,332)	(1,837)
NET INCOME	14,388	16,108
RETAINED EARNINGS AT BEGINNING OF YEAR	179,563	157,338
RETAINED EARNINGS AT END OF YEAR	\$186,733	\$174,563

The accompanying notes are an integral part of this statement.

KELLY WATER DISTRICT
 Kelly, Louisiana
PROPRIETARY FUND TYPE - ENTERPRISE FUND

Statement of Cash Flows - By Years
 For the Two Years Ended October 31, 1995

	YEAR ENDED	
	OCTOBER 31,	
	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$83,363	\$84,238
Cash paid to suppliers and employees	(56,677)	(54,471)
Customer deposits (net)	(39)	681
Net cash provided by operating activities	26,647	29,489
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Inherited transfers		1,000
Other non-operating income		958
Net cash provided by noncapital financing activities	NONE	1,958
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal and interest on revenue bonds	(55,506)	(18,182)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on bank deposits	1,468	1,599
NET INCREASE (Decrease) IN CASH AND CASH EQUIVALENTS	(27,491)	13,914
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	64,007	50,566
CASH AND CASH EQUIVALENTS AT END OF YEAR	36,516	64,480
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$13,719	\$17,031

(Continued)

KELLY WATER DISTRICT

Kelly, Louisiana

PROPRIETARY FUND TYPE - ENTERPRISE FUND

Statement of Cash Flows - By Years, etc.

	YEAR ENDED	
	OCTOBER 31,	
	1996	1995
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	\$10,752	\$10,752
Bad debt expense		1,566
Changes in assets and liabilities:		
Decrease in accounts receivable	148	388
Increase in accounts payable	71	232
Increase (decrease) in customer deposits	138	(65)
Total adjustments	<u>11,139</u>	<u>12,601</u>
Net cash provided by operating activities	<u>\$26,824</u>	<u>\$29,851</u>

(Continued)

The accompanying notes are an integral part of this statement.

KELLY WATER DISTRICT
Kelly, Louisiana

Notes to the Financial Statements
As of and for the Two Years Ended October 31, 1996

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kelly Water District was created by the Caldwell Parish Police Jury in 1973, as authorized by Louisiana Revised Statute 33:1811 for the purpose of supplying safe drinking water to the population of the district. The district is governed by a five member board appointed by the police jury who serve for indefinite terms of office without the benefit of compensation.

A. BASIS OF PRESENTATION

The accompanying general purpose financial statements of Kelly Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles.

B. REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Caldwell Parish Police Jury is the financial reporting entity for Caldwell Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Caldwell Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body,
and:

KELLY WATER DISTRICT

Ridley, Louisiana

Notes to the financial statements (Continued)

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

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

C. FUND ACCOUNTING

The district uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures or expenses. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities (general fixed assets and general long-term debt) that are not recorded in the "funds" because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position, not with the measurement of results of operations.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types". Governmental funds are

KELLY WATER DISTRICT

Kelly, Louisiana

Notes to the financial statements (Continued)

used to account for a government's general activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on recovering the cost of providing services to the public or other agencies through service charges or user fees. Fiduciary funds are used to account for assets held for others. The district's current operations require the use of governmental and proprietary funds and are described as follows:

Governmental Fund Type - Debt Service Fund

The debt service fund accounts for the collection of ad valorem tax revenue levied to pay principal and interest on general obligation bonds issued for the purpose of constructing the water system.

Proprietary Fund Type - Enterprise Fund

The enterprise fund is used to account for operations of the district. The use of enterprise funds is appropriate when activities are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to customers in the district on a continuing basis be financed or recovered primarily through user charges.

B. FIXED ASSETS AND LONG-TERM DEBT

Fixed assets of the district are included on the balance sheet of the enterprise fund and are recorded at actual cost. Fixed assets reported on the balance sheet are net of accumulated depreciation. Depreciation of all depreciable fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over estimated useful lives of 40 years for the water distribution system and 5 years for furniture and equipment. Revenue bonds and notes payable that are to be repaid from operating revenues of the enterprise fund are recognized as a liability of the enterprise fund. General obligation bonds are recorded in the general long-term debt account group. These bonds are secured by ad valorem taxes assessed against property owners in the district. The general obligation bonds are recognized as a liability of a governmental fund only when due.

KELLY WATER DISTRICT

Kelly, Louisiana

Notes to the financial statements (Continued)

E. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for reporting the debt service governmental fund type. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The district uses the following practices in recognizing and reporting revenues and expenditures of the debt service fund:

Revenues

Ad valorem taxes are recorded in the year the taxes are due and payable. Ad valorem taxes are assessed on a calendar year basis and attach as an enforceable lien and become due and payable on the date the tax rolls are filed with the recorder of mortgages. Louisiana Revised Statute 47:1993 requires that the tax roll be filed on or before November 15 of each year. Ad valorem taxes become delinquent if not paid by December 31. The taxes are normally collected in December of the current year and January and February of the ensuing year.

Interest on demand deposits is recognized when it has been earned and credited to the fund's account.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized when due.

KILLY WATER DISTRICT

Killy, Louisiana

Notes to the financial statements (Continued)

The Enterprise Fund is accounted for on a flow of economic resources measurement basis and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as the liabilities are incurred. Water rates and connection fees are recognized in the period the service is provided to the customer. Salaries and other expenses are recognized when incurred.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits, interest-bearing demand deposits and time deposits with original maturities of 90 days. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with banks organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States.

Under state law, the district may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

At October 31, 1996, the district has cash and cash equivalents (bank balances) totaling \$61,985 as follows:

Demand deposits:	
Non-interest bearing	\$3,724
Interest bearing	26,062
Time deposits	<u>32,202</u>
Total	<u>\$61,985</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits, or the resulting bank balances, must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. Cash and cash equivalents (bank balances) at October 31, 1996, are \$61,985, and are fully secured from risk by federal deposit insurance.

KELLY WATER DISTRICT

Kelly, Louisiana

Notes to the financial statements (Continued)

For purposes of the statement of cash flows, cash equivalents include only those certificates of deposit with a maturity date of three months or less when purchased.

G. RESTRICTED ASSETS

Certain resources of the Enterprise Fund set aside for the repayment of revenue bonds and the refunding of customer deposits are classified as restricted assets on the balance sheet because their use is limited.

H. CONTRIBUTED CAPITAL

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

I. TOTAL COLUMN (ON THIS COMBINED BALANCE SHEET)

The total column on the combined balance sheet is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis (overview). Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. LEVIED TAXES

The ad valorem tax millage authorized by the district was 3.50 mills for both years in the two year period ended October 31, 1998. The authorized millage was levied by the district for each of the two years.

3. ACCOUNTS RECEIVABLE

At October 31, 1998, the district has net receivables of \$6,969, as follows:

KELLY WATER DISTRICT

Kelly, Louisiana

Notes to the financial statements (Continued)

Water sales	\$8,296
Allowance for uncollectible accounts	<u>(1,377)</u>
Net receivables	<u>\$6,919</u>

The allowance for uncollectible accounts at October 31, 1996 is an estimate based on the average percentage of accounts that are not collected in the month following the month the customer is billed.

8. FIXED ASSETS

A summary of fixed assets at October 31, 1996, follows:

Water system	\$407,867
Furniture and equipment	<u>16,142</u>
	424,009
Less accumulated depreciation	<u>(190,531)</u>
Property, plant and equipment, net	<u>\$233,478</u>

During the two years ended October 31, 1996, the Caldwell Parish Police Jury obtained a grant to construct a new water well for the district. As of October 31, 1996, total expenditures incurred by the police jury under the grant was \$202,676. Upon completion of the project, the police jury will transfer the assets to the Kelly Water District.

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the two years ended October 31, 1996:

	General Obligation Bonds	Revenue Bonds	Notes Payable	Total
Long-term obligations at November 1, 1994	\$53,000	\$28,800	\$34,062	\$115,862
For the year ended October 31, 1995:				
Additions				
Retirements	(8,000)	(4,800)	(18,357)	(31,157)

KILLY WATER DISTRICT

Killy, Louisiana

Notes to the financial statements (Continued)

	General Obligation Bonds	Revenue Bonds	Notes Payable	Total
For the year ended				
October 31, 1996:				
Additions:				
Retirements	(58,000)	(54,000)	(527,705)	(639,705)
Long-term obligations at October 31, 1996	<u>\$17,000</u>	<u>\$10,000</u>	<u>NONE</u>	<u>\$27,000</u>

Bonds payable outstanding at October 31, 1996 are comprised of the following individual issues:

General Obligation Bonds - \$120,000 1973 Public Improvement

Bonds due in annual installments of \$8,000 to \$8,000 through
April 1, 1998; interest at 5.50 percent. \$17,000

Revenue Bonds - \$55,000 1973 Waterworks Utility Revenue

Bonds due in annual installments of \$5,000 through
April 1, 1998; interest at 6.00 percent. \$10,000

The annual requirements to amortize all debt outstanding at October 31, 1996, including interest of \$1,362, are as follows:

Year	
1997	\$14,165
1998	14,397
Total	\$28,562

7. RESERVED RETAINED EARNINGS

The bond covenant for the 1973 revenue bonds discussed in note 4 above, requires the district to establish the following reserve accounts:

- A. A "Waterworks Revenue Bond Sinking Fund". The district must transfer into this fund each month, one-twelfth of the principal and one-sixth of the interest due on the next principal and interest payment dates. Such transfers will be fully sufficient to assure the prompt payment of principal and interest installments as

KILLY WATER DISTRICT

Kelly, Louisiana

Notes to the financial statements (Continued)

they become due and may be used only for such payments.

- B. A "Waterworks Revenue Bond Reserve Fund". The district must transfer into this fund each month an amount equal to 20 percent of the amount to be paid into the Waterworks Revenue Bond Sinking Fund until there will have been accumulated in the Reserve Fund an amount equal to the maximum principal and interest requirements in any one maturity year. The maximum is \$5,450. Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Waterworks Revenue Bond Sinking Fund and as to which there would otherwise be default.
- C. A "Capital Additions and Contingencies Fund". The district must transfer into this fund each month an amount equal to 5 percent of the gross revenues of the system collected in cash during the preceding month. Money in this fund may be used for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and alterations of the system and may be used to pay principal and interest on the bonds at any time there is not sufficient funds in the other bond funds. The district must maintain a \$1,000 minimum balance in this fund.

At October 31, 1996, the district has set aside \$38,505 to meet the reserve requirements. Of that amount, \$5,000, is offset by the current portion of long term debt, with the remaining \$34,505, reported as a reserve of retained earnings on Statement A.

8. LITIGATION AND CLAIMS

The district is not involved in any litigation as October 31, 1996, nor is it aware of any unasserted claims. The district maintains insurance coverage to reduce the risk of loss resulting from property damage or liability claims.

**Independent Auditor's Reports Required
by Government Auditing Standards**

The following independent auditor's reports on compliance with laws and regulations and on the internal control structure are presented in compliance with the requirements of *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.

M. Carlton Dumas
CERTIFIED PUBLIC ACCOUNTANT

249 EDENHILLERSON ROAD • CALIBOU, LOUISIANA 71228 • TELEPHONE 318/644-9729

**Independent Auditor's Report on Compliance
Based on an Audit of General Purpose
Financial Statements Performed in Accordance with
Government Auditing Standards**

**BOARD OF COMMISSIONERS
KELLY WATER DISTRICT
Kelly, Louisiana**

I have audited the general purpose financial statements of Kelly Water District, as of October 31, 1996 and for each of the years in the two-year period then ended, and have issued my report thereon dated January 30, 1997.

I conducted my audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and the Louisiana Governmental Audit Guide, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor. These standards and the audit guide require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws and regulations applicable to Kelly Water District, is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, I performed tests of Kelly Water District's compliance with certain provisions of laws and regulations. However, the objective of my audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted a certain immaterial instance of noncompliance that I have reported to the management of the district in a separate letter dated January 30, 1997.

BOARD OF COMMISSIONERS
BELLY WATER DISTRICT
Kelly, Louisiana
Independent Auditor's Report on
Compliance, etc.

This report is intended for the information of the board of commissioners of Kelly Water District, management of the district, and interested state and federal agencies. This is not intended to limit the distribution of this report, which is a matter of public record.



Calhoun, Louisiana
January 30, 1997

M. Carlene Dumas
CERTIFIED PUBLIC ACCOUNTANT

280 DORSEYBROOK ROAD • CADDEN, LOUISIANA 71212 • TELEPHONE 318/944-2526

**Independent Auditor's Report on the Internal Control
Structure Based on an Audit of General Purpose
Financial Statements Performed in Accordance with
Government Auditing Standards**

BOARD OF COMMISSIONERS
KELLY WATER DISTRICT
Kelly, Louisiana

I have audited the general purpose financial statements of Kelly Water District, as of October 31, 1996, and for each of the years in the two year period then ended, and have issued my report thereon dated January 30, 1997.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of Kelly Water District, 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.

KELLY WATER DISTRICT
Kelly, Louisiana
Independent Auditor's Report
on the Internal Control Structure, etc.

In planning and performing my audit of the general purpose financial statements of Kelly Water District, as of and for the two years ended October 31, 1996, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed risk in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

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

All accounting functions of the district, i.e., depositing and posting receipts and preparing, posting and issuing checks are performed by one individual. Such functions are not compatible and should be performed by separate individuals. However, because of the size of the district's operations and its limited revenues, it is not economically feasible to correct this deficiency.

A material weakness is a reportable condition in which the design or operation of one or more of the specific 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.

My 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 material weaknesses as defined above. However, I believe the reportable condition described above is not a material weakness.

This report is intended for the information of the board of commissioners of Kelly Water District, management of the district, and interested state and federal agencies. This is not intended to limit the distribution of this report, which is a matter of public record.



Calhoun, Louisiana
January 30, 1997

M. Carolyn Dumas
CERTIFIED PUBLIC ACCOUNTANT

369 DONALDSON ROAD • CALICOEN, LOUISIANA 71225 • TELEPHONE 338/644-8726

MANAGEMENT LETTER

KELLY WATER DISTRICT
Kelly, Louisiana

In planning and performing my audit of Kelly Water District's financial statements for the two years ended October 31, 1996, a certain matter came to my attention which I feel should be conveyed to management of the district. This matter, while not appropriate for inclusion in the various auditor's reports accompanying the financial statements, is an item which I feel should be brought to your attention.

**ANNUAL REPORT SHOULD BE FILED
WITH THE LEGISLATIVE AUDITOR**

Louisiana Revised Statutes (LRS) 24:514 (A) requires that the district furnish annual financial statements to the Legislative Auditor. LRS 24:514 (F) provides that when an audit engagement is for multiple fiscal years, financial statements must be submitted for the interim fiscal year. The general purpose financial statements upon which I rendered my opinion dated January 30, 1997, included the years ended October 31, 1995 and 1996. The district did not submit annual financial statements to the Legislative Auditor for the year ended October 31, 1995. In the future, the district should furnish annual financial statements to the Legislative Auditor within sixty days of the close of the fiscal year.

GENERAL

I am available to assist the district with any problems or questions they may have concerning the above or any other matters.

Respectfully,



Carolyn Dumas
January 30, 1997