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WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
FINANCIAL REPORT
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewer, and to other appropriate public officials. This 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 8/27/98

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1998
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FINANCIAL SECTION

ROBERT E. HOLLADAY III, CPA
200 BRICKSIDE DRIVE
BOSTON, MA 02116

MEMBER
AMERICAN INSTITUTE OF CPAS
LICENSED BY LOUISIANA STATE

TELEPHONE
617-552-4411

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

I have audited the accompanying general purpose financial statements of the Waterworks District No. 2, Lincoln Parish, Louisiana (a component-unit of the Lincoln Parish Police Jury), as of and for the years ended June 30, 1998 and 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Waterworks' management. My responsibility is to express an opinion on these general purpose financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. These standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 2, Lincoln Parish, Louisiana, as of June 30, 1998 and 1999, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, I have also issued my report dated November 3, 1998, on my consideration of the Waterworks District's internal control over financial reporting, and my tests of its compliance with certain provisions of laws, regulations and contracts.

Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

My audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Waterworks District No.2, taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the listing of insurance in force marked "unaudited", on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



R. E. Holladay III, CPA

Bossier, Louisiana
November 5, 1988

GENERAL PURPOSE FINANCIAL STATEMENTS

Waterworks District No. 2 only has one fund, the Enterprise Fund (described below), which covers the operation of its water distribution system.

ENTERPRISE FUND

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the Waterworks' commissioners is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through determination of net income is appropriate for accountability purposes.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
BALANCE SHEETS
JUNE 30, 1998 & 1997

	<u>June 30</u>	
	<u>1998</u>	<u>1997</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 10,673	\$ 8,884
CD - Water System Revenue Fund	102,000	102,000
Accounts Receivable	7,374	4,887
Unbilled Revenue	<u>1,620</u>	<u>785</u>
Total Current Assets	<u>121,667</u>	<u>116,556</u>
RESTRICTED ASSETS		
CD - Customer Meter Deposits	4,800	4,800
CD - Capital Expenditures	<u>5,483</u>	<u>5,302</u>
Total Restricted Assets	<u>10,283</u>	<u>10,102</u>
FIXED ASSETS		
Plant & Equipment, at Cost, Net of Accumulated Depreciation (1998 - \$50,002 & 1997 - \$55,328)	<u>25,005</u>	<u>21,680</u>
TOTAL ASSETS	\$ 166,955	\$ 157,858

(Continued)

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
BALANCE SHEETS
JUNE 30, 1998 & 1997

	<u>June 30</u>	
	<u>1998</u>	<u>1997</u>
LIABILITIES & FUND EQUITY		
<u>CURRENT LIABILITIES</u>		
Accrued Water Purchases	\$ 3,615	\$ 2,000
<u>PAYABLE FROM RESTRICTED ASSETS</u>		
Customer Meter Deposits	4,245	4,880
Total Liabilities	7,860	6,880
<u>FUND EQUITY</u>		
<u>CONTRIBUTED CAPITAL</u>		
Water System Bond Proceeds	39,500	39,500
Subdivider	8,184	8,184
Total Contributed Capital	47,684	47,684
<u>RETAINED EARNINGS</u>		
Reserved for Capital Expenditures	5,463	5,202
Unreserved	99,348	98,082
Total Retained Earnings	104,811	103,284
Total Fund Equity	152,325	150,968
TOTAL LIABILITIES & FUND EQUITY	\$ 160,235	\$ 157,858

(Continued)

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
& CHANGES IN RETAINED EARNINGS
YEARS ENDED JUNE 30, 1998 & 1997

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
<u>OPERATING REVENUES</u>		
<u>Charges for Services</u>		
Water Revenue	\$ 34,437	\$ 45,380
Penalties	1,894	1,204
Tapping Fees	579	
Miscellaneous	_____	13
TOTAL OPERATING REVENUES	35,110	46,597
<u>COST OF SALES</u>		
Water Purchased	_____ 33,839	_____ 29,258
GROSS PROFIT	_____ 1,271	_____ 17,339
<u>OPERATING EXPENSES</u>		
<u>Water Department Expenses</u>		
Depreciation	1,675	3,884
Electricity	129	118
Repairs & Maintenance	1,989	2,765
Supplies	_____	_____ 660
Total	_____ 3,793	_____ 6,827
<u>General & Administrative Expenses</u>		
Accounting	1,875	1,900
Audit	3,900	3,900
Bad Debts	307	142

(Continued)

The accompanying notes are an integral part of this statement.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
& CHANGES IN RETAINED EARNINGS (CONTINUED)
YEARS ENDED JUNE 30, 1998 & 1997**

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
General & Administrative Expenses (Continued)		
Insurance & Bonds	\$ 1,922	\$ 1,516
Legal	450	
Miscellaneous	158	158
Office Supplies	329	612
Postage	466	680
Salary	7,100	6,600
Sales Tax	601	661
Software Support	300	300
Taxes on Payroll	545	505
Telephone	571	557
Travel	690	609
Total	<u>18,722</u>	<u>17,528</u>
TOTAL OPERATING EXPENSES	<u>24,365</u>	<u>23,947</u>
OPERATING (LOSS)	(4,464)	(6,388)
NONOPERATING REVENUE		
Interest Income	<u>5,821</u>	<u>4,989</u>
NET INCOME (LOSS)	1,427	(1,219)
RETAINED EARNINGS, JULY 1	103,384	99,380
RESIDUAL EQUITY TRANSFER IN	<u> </u>	<u>5,282</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 104,711</u>	<u>\$ 103,384</u>

(Concluded)

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
PROPRIETARY FUND TYPE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1998 & 1997

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET INCOME (LOSS) - Exhibit C	\$ <u>1,427</u>	(\$ <u>1,219</u>)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	2,673	2,884
Changes in Assets & Liabilities:		
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable	(2,287)	159
Unbilled Revenue	(315)	15
<u>Increase (Decrease) in Liabilities</u>		
Accrued Water Purchases	<u>1,585</u>	<u>(290)</u>
Total Adjustments	<u>1,656</u>	<u>2,798</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,083</u>	<u>1,579</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Increase (Decrease) in Customer Meter Deposits	(<u>325</u>)	(<u>320</u>)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(<u>325</u>)	(<u>320</u>)

(Continued)

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
PROPRIETARY FUND TYPE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 1998 & 1997

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>		
Purchase of Office Equipment	_____	(\$ 250)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	_____	(250)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
(Increase) in Certificates of Deposit Maturing More than Three Months		
CD - Water System Revenue Fund		(4,500)
CD - Capital Expenditures	(261)	_____
NET CASH (USED) BY INVESTING ACTIVITIES	(261)	(4,500)
NET INCREASE (DECREASE) IN CASH	2,989	(3,300)
CASH AT JULY 1	8,084	11,384
CASH AT JUNE 30	<u>\$ 10,673</u>	<u>\$ 8,084</u>

(Concluded)

The accompanying notes are an integral part of this statement.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1998 & 1997**

Waterworks District No. 2, pursuant to Louisiana revised Statute 33:3811, was created by Ordinance 388, dated July 13, 1982, adopted by the Lincoln Parish Police Jury. The Waterworks System was completed and it became revenue producing during the month of May, 1984. The Waterworks System serves the residents of Vienna and certain areas north and south of Vienna.

The following notes to the financial statements are an integral part of the Waterworks Financial Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose and individual fund financial statements of the Lincoln Parish Waterworks District No. 2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units, except as noted elsewhere in this report. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Waterworks' accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:514 and to the guides set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

The more significant of the Waterworks' accounting policies are described below.

A. FINANCIAL REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Lincoln Parish Police Jury is the financial reporting entity for Lincoln 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.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

A. FINANCIAL REPORTING ENTITY CONCEPT

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

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

Lincoln Parish Police Jury Ordinance 100, dated July 13, 1965, created Waterworks District No. 2, set forth and defined its boundaries, designated its name and number, designated its domicile, its powers and its commissioners, designated the minimum number of meetings of the commissioners and their compensation, set forth the qualifications of the commissioners, designated the maximum amount of salary which may be paid the secretary of the board of commissioners, and designated the officers to be elected by the board of commissioners.

Because of the above criteria, the district was determined to be a component unit of the Lincoln 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.

**WATERWORKS DISTRICT NO. 3
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

B. FUND ACCOUNTING

The Waterworks District uses funds 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.

The Waterworks District No.3 Enterprise Fund is classified in the following category and fund type.

Proprietary Fund

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. PROPERTY, PLANT AND EQUIPMENT

Public domain (infrastructure) assets including the waterline distribution system are capitalized along with other fixed assets and are included on the proprietary fund's balance sheet.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated service lives using the straight-line method. The estimated service lives are as follows:

Water Utility

Office Equipment	5 - 10 Years
Storage Building	20 Years
Waterline Distribution	20 - 50 Years

Depreciation on the proprietary fund amounted to \$2,675 for the fiscal year.

**WATERWORKS DISTRICT NO. 3
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

C. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

All property, plant and equipment are valued at historical cost with the exception of donated property, plant and equipment which are valued at their estimated fair value of \$8,164 on the date donated. Depreciation on donated property amounted to \$205 for the fiscal year.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all 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 true liabilities are incurred.

**E. BUDGETS AND BUDGETARY ACCOUNTING:
LEGAL COMPLIANCE**

Waterworks District No. 3 is not legally required to adopt a budget and has not done so. Encumbrance accounting is not used.

F. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash includes amounts in demand deposits and interest bearing demand deposits, as well as short-term Certificates of Deposit with a maturity date within three months of the date acquired by the Waterworks. Certificates of deposit and other securities with original maturities over three months are classified as short-term investments and stated at cost, which approximates market value.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

G. INVESTMENTS

The Waterworks District is authorized to make direct investments in United States government bonds, treasury notes, treasury bills or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana.

H. INTEREST RECEIVABLE

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

I. FUND EQUITY

Reserves are recorded to indicate that a portion of the fund balance is legally segregated for a specific future use. Following is a list of all reserves used and a description of each:

Designated for Capital Expenditures - an account used to segregate a portion of fund balance for Capital Expenditures.

Contributed Capital is recorded in the proprietary fund that has received contributions from developers. It is not amortized based on the depreciation recognized on that portion of assets acquired from such contributions.

J. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

(2) RESTRICTED ASSETS - PROPRIETARY FUND TYPE

Certain assets of the Waterworks District No. 2 have been restricted for customer meter deposits and capital expenditures. These assets consist of short-term investments as follows:

	June 30	
Certificates of Deposit	1998	1997
Customer Meter Deposits	\$ 4,800	\$ 4,800
Capital Expenditures	\$ 5,995	\$ 5,202

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

(9) CASH & INVESTMENTS**Cash**

At June 30, 1998, the Waterworks District Cash consist of the following:

<u>Description</u>	<u>Amount</u>
Petty Cash & Change Fund	\$ 100
Interest-Bearing Demand Deposits	<u>10,573</u>
Total	<u>\$ 10,673</u>

At June 30, 1998, carrying amounts of the Waterworks District investments were as follows:

	<u>Restricted For Customer Meter Deposits</u>	<u>Restricted For Capital Expenditures</u>	<u>Water System Revenue Fund</u>
Certificate of Deposit	<u>\$ 4,800</u>	<u>\$ 5,463</u>	<u>\$ 103,000</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 1998, the district had \$124,792 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance (Credit Risk Category 1) and \$103,627 of pledged securities with a market value of \$106,230, held by the custodial bank in the name of the Waterworks District No. 2 (Credit Risk Category 2).

(10) RECEIVABLES

Receivables for water sales at June 30, 1998 and 1997, amount to \$7,274 and \$4,987, respectively.

Estimated unbilled revenues on the Waterworks Enterprise Fund as of June 30, 1998, were recognized on a pro-rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

All accounts receivable are considered by management to be fully collectible and no allowances for doubtful accounts is considered necessary.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

(5) SEGMENT INFORMATION - ENTERPRISE FUND

The Waterworks District maintains an enterprise fund which is intended to be self-supporting through user fees charged for water service to the public. Financial segment information as of and for the years ended June 30, 1998 and 1997, is presented below.

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
Property & Equipment Additions		\$ 259
Operating Revenues	\$ 53,110	46,597
Depreciation	2,675	2,884
Operating (Loss)	(4,494)	(6,306)
Net Income (Loss)	1,427	(1,215)
Net Working Capital	117,352	113,746
Total Assets	140,235	137,458
Total Equity	132,375	130,948

(6) CHANGES IN PROPRIETARY FUND PROPERTY, PLANT AND EQUIPMENT

A summary of proprietary fund type property, plant and equipment at June 30, is as follows:

	<u>June 30</u>	
	<u>1998</u>	<u>1997</u>
Office Equipment	\$ 3,677	\$ 3,878
Buildings	3,870	3,870
Water Distribution System ¹	78,460	78,460
Land	<u>800</u>	<u>800</u>
Totals	87,007	87,008
Accumulated Depreciation	(58,000)	(55,128)
Net	<u>\$ 29,007</u>	<u>\$ 31,680</u>

There were no additions or retirements during the year ended June 30, 1998.

¹Includes donated value of \$8,164

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

(7) CONTRIBUTED CAPITAL - PROPRIETARY FUND

Contributed capital on June 30, 1998, consist of:

12-1-65 Public Improvement Bond Proceeds Used for Construction of Capital Assets	\$ 30,500
Contribution from subdivder - Water well & distribution lines	8,164
Total	<u>\$ 37,664</u>

(8) CONCENTRATIONS OF CREDIT RISK

The Waterworks grants credit without collateral in excess of customers' deposits. Customers are local area residents within the Waterworks district.

(9) WATER REVENUE

A summary of water sales to metered customers for the last two years is provided below.

	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
Sales to Customers	\$ 51,637	\$ 45,380
Number of Customers at June 30	175	179

Information regarding gallons of water sold and purchased is as follows:

<u>Description</u>	<u>Year Ended June 30</u>	
	<u>1998</u>	<u>1997</u>
Gallons Sold	29,869,798	19,849,312
Gallons Purchased	28,387,072	27,864,496
Gallons Purchased in Excess of Sales	<u>(1,517,274)</u>	<u>(8,015,184)</u>

The above discrepancies are consistent with prior years and the cause has not been determined.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

(10) WATER CONTRACTS

Waterworks District No. 2 purchases its water from the City of Ruston. Purchases of water by Waterworks District No. 2 were \$35,809 and \$29,258 for the years ended June 30, 1998 and 1997, respectively.

On April 29, 1997, the Waterworks Board of Commissioners adopted a resolution to approve a new contract with the City of Ruston, subject to approval by the Ruston Board of Aldermen, to supply water as presented below.

The unit price per 100 cubic feet will be based and adjusted annually if appropriate on the city's audited operating cost per 100 cubic feet sold x 10% plus capacity charge. Initial and minimum price per 100 cubic feet is 0.825. The Waterworks District No. 2 will reimburse the City for a master water meter, purchase and install a back-flow prevention device and a Department of Health and Hospitals approved sample station.

The agreement is for five years with an option to renew for additional five-year terms. The City may terminate the agreement at any time with a provision to supply water for a period of twelve months from notice. The contract was adopted by the Board of Aldermen of the City of Ruston, and the contract executed on September 30, 1997.

New billing rates effective for the billing period ended November 25, 1997, were as follows:

Base Rate (first 2,000 gallons)	\$ 8.50 per month
2,001 to 3,000 gallons	2.10 per 1,000 gallons
3,001 to 10,000 gallons	1.70 per 1,000 gallons
Over 10,000 gallons	1.50 per 1,000 gallons

(11) CONTINGENT LIABILITIES

At June 30, 1998, there was no pending or contemplated litigation involving Waterworks District No. 2 which might involve contingent liabilities.

(12) COMPENSATED ABSENCES

No accrual was made as prescribed in FASB 43 for employees compensation for future absences (vacation pay) since these rights do not vest or accumulate.

**WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 1998 & 1997**

(23) COMMISSIONERS COMPENSATION

No compensation was paid to any member of the Board of Commissioners during the year ended June 30, 1998. Board members who served during the year are listed below.

<u>Commissioner</u>	<u>Compensation</u>
Bruce C. Apers, President (Resigned 4-30-98)	None
Walker Carpenter, Acting President	None
William R. Gubars	None
James T. Hammond	None
Wayne Herrin, Secretary/Treasurer	None
Blair Levy	None
Joseph R. Thomas, Jr.	None
Douglas Willis	None

SUPPLEMENTARY INFORMATION SECTION

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENTS
JUNE 30, 1998

	<u>Interest</u> <u>Rate</u>	<u>Date</u> <u>Acquired</u>	<u>Maturity</u> <u>Date</u>	<u>Book</u> <u>Value</u>
ENTERPRISE FUND				
Control Bank				
CD - Water System Revenue Fund	5.25%	10-02-97	10-02-98	\$ 102,000
CD - Capital Expenditures	4.75%	6-29-98	6-29-99	5,465
Security First National Bank				
CD-Customer Meter Deposits	5.50%	3-31-97	3-31-99	4,800
TOTAL ENTERPRISE FUND				\$ 112,265

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
SUPPLEMENTARY INFORMATION
SCHEDULE OF INSURANCE IN FORCE (UNAUDITED)
JUNE 30, 1998

Insurer	Policy Number	Dates		Description of Coverage	Net Premiums Paid
		Effective	Expires		
Genius Union	MEK490148	5-23-98	5-23-99	Commercial General Liability	\$ 563
				General	
				Personal & Advertising	
				Fine Medical	
Western Surety Company	58270597	6-03-98	6-07-99	Official Bond on Director of Management and Maintenance	100
LA Workers' Compensation Company	19000	1-01-98	1-01-99	Workmen's Compensation	1,232
					\$ 1,232

OTHER INDEPENDENT AUDITOR'S REPORTS

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

ROBERT E. HOLLADAY III, CPA
 111 ROBERT DRIVE
 MONROE, LA 71208

MEMBER
 AMERICAN INSTITUTE OF CPAS
 SOCIETY OF LOUISIANA CPAs

TELEPHONE
 225-335-4411

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

To the Board of Commissioners
 Waterworks District No. 2
 Lincoln Parish, Louisiana

I have audited the general purpose financial statements of Waterworks District No. 2, Lincoln Parish, Louisiana, as of and for the years ended June 30, 1998 and 1997, have issued my report thereon dated November 5, 1998. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Waterworks District No. 2's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Waterworks District No. 2's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Waterworks District No. 2's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A single reportable condition is described below.

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 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 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, I consider the reportable condition described below to be a material weakness.

Reportable Condition

Finding

An adequate internal control structure requires proper segregation of duties. The Waterworks does not have a sufficient number of employees to provide for proper segregation of duties due to economic limitations.

Recommendation

Because the condition is inherent, no action is recommended.

Management Response

Management concurs in the finding.

Status of prior findings

There were no other prior findings.

This report is intended for the information of the Board of Commissioners, management, the Lincoln Parish Police Jury, and State and Federal audit agencies. However, this report is a matter of public record and its distribution is not limited.


R. E. Holladay III, CPA

Buxton, Louisiana
November 5, 1998