

**Waterworks District No. 2
of the Parish of St. Mary
State of Louisiana**

**Report on Examination of
Financial Statements**

**For the years ended
September 30, 1998 and 1997**

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 MAR 17 1999

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Waterworks District No. 2
Parish of St. Mary
Bayou Vista, Louisiana

We have audited the accompanying general purpose financial statements of Waterworks District No. 2, a component unit of the Parish of St. Mary, State of Louisiana, as of and for the years ended September 30, 1998 and 1997, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 2 as of September 30, 1998 and 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Governmental Accounting Standards Board has issued "GASB Technical Bulletin 98-1, Disclosures about Year 2000 Issues," effective for financial statements on which the auditor's report is dated after October 31, 1998. As discussed at Note J, the District has disclosed certain matters regarding the year 2000 issue. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be year 2000 ready.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 1999, on our consideration of Waterworks District No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The individual fund financial statements, schedules, and statistical data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of Waterworks District No. 2. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the component unit financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

LeBlanc and Carpenter

January 18, 1999
Morgan City, Louisiana

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Combined Balance Sheet - All Fund Types

September 30, 1998

	<u>Proprietary</u> <u>Fund Type</u> <u>Waterworks</u> <u>System</u>	<u>Totals</u> <u>(Memorandum Only)</u>	
		<u>9-30-98</u>	<u>9-30-97</u>
ASSETS			
Cash	\$ 130,875	\$ 130,875	\$ 29,053
Investments, at cost	110,044	110,044	142,376
Accounts receivable	102,478	102,478	98,815
Due from other governmental units	9,625	9,625	4,334
Interest receivable	2,139	2,139	2,139
Inventory	10,813	10,813	10,624
Prepaid expenses	4,600	4,600	4,552
Restricted assets			
Cash	163,546	163,546	127,787
Investments, at cost	84,416	84,416	91,359
Waterworks system and equipment (net)	681,663	681,663	720,485
Prepaid water tower maintenance	132,148	132,148	148,666
Investment in Berwick-Bayou Vista Joint Waterworks Commission	102,905	102,905	88,117
Unamortized bond expense	<u>1,602</u>	<u>1,602</u>	<u>2,516</u>
TOTAL ASSETS	<u>\$1,536,854</u> =====	<u>\$1,536,854</u> =====	<u>\$1,470,823</u> =====

EXHIBIT A

	<u>Proprietary Fund Type Waterworks System</u>	<u>Totals (Memorandum Only)</u>	
		<u>9-30-98</u>	<u>9-30-97</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 22,040	\$ 22,040	\$ 10,298
Contracts payable	--	--	--
Due to other governmental units	75,089	75,089	70,413
Payable from restricted assets			
Accrued interest on bonds	686	686	991
Water revenue bonds due within one year	45,000	45,000	40,000
Due to other governmental units	116	116	169
Meter deposits	121,410	121,410	113,578
Water Revenue bonds	<u>45,000</u>	<u>45,000</u>	<u>90,000</u>
TOTAL LIABILITIES	<u>309,341</u>	<u>309,341</u>	<u>325,449</u>
FUND EQUITY			
Contributed capital	<u>158,337</u>	<u>158,337</u>	<u>158,337</u>
Retained earnings			
Reserved for bond debt	121,362	121,362	100,623
Unreserved	<u>947,814</u>	<u>947,814</u>	<u>886,414</u>
TOTAL RETAINED EARNINGS AND FUND BALANCE	<u>1,069,176</u>	<u>1,069,176</u>	<u>987,037</u>
TOTAL FUND EQUITY	<u>1,227,513</u>	<u>1,227,513</u>	<u>1,145,374</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$1,536,854</u> =====	<u>\$1,536,854</u> =====	<u>\$1,470,823</u> =====

See notes to financial statements.

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Statement of Income, Expenses and Changes in Retained Earnings
Proprietary Fund Type

For the years ended September 30, 1998 and 1997

	<u>9-30-98</u>	<u>9-30-97</u>
OPERATING REVENUES		
Charges for water service	\$302,956	\$293,846
Delinquent charges	3,549	2,883
Meter installation, reconnects, etc.	4,575	5,083
Sewerage collection fees	14,400	14,400
Garbage collection fees	13,589	13,340
Sewerage maintenance fees	<u>12,000</u>	<u>12,000</u>
TOTAL OPERATING REVENUES	<u>351,069</u>	<u>341,552</u>
 OPERATING EXPENSES		
Personal services		
Clerical salaries	31,066	30,014
Other salaries	21,509	28,440
Board meetings	4,380	4,680
Contract labor	1,208	--
Payroll taxes	1,056	1,527
Employee group insurance	6,389	9,253
Retirement contributions	5,638	7,043
Operating services		
Cost of water	126,036	122,229
Insurance	10,699	6,930
Audit fees	5,795	5,795
Engineering fees	1,540	1,200
Legal fees	--	--
Computer consulting	400	178
Repairs and maintenance	64,883	50,028
Amortize tower maintenance	16,518	16,518
Bad debts	470	185
Utilities and telephone	1,641	1,916
Vehicle expense	4,239	2,519
Materials and supplies		
Office expense	1,914	1,961
Postage	4,044	4,010
Advertising	438	421
Miscellaneous	110	138
Depreciation	<u>84,529</u>	<u>84,079</u>
TOTAL OPERATING EXPENSES	<u>394,502</u>	<u>379,064</u>

EXHIBIT B

	<u>9-30-98</u>	<u>9-30-97</u>
LOSS BEFORE NONOPERATING REVENUE AND EXPENSES	\$ <u>(43,433)</u>	\$ <u>(37,512)</u>
NON OPERATING REVENUE (EXPENSES)		
Ad valorem taxes	111,204	99,470
Interest income	22,614	17,558
Interest on bonds	(6,405)	(8,845)
Amortize bond cost	(913)	(913)
Bond administration fees	<u>(928)</u>	<u>(1,029)</u>
TOTAL NONOPERATING REVENUE (NET)	<u>125,572</u>	<u>106,241</u>
NET INCOME	82,139	68,729
RETAINED EARNINGS		
Beginning of year	<u>987,037</u>	<u>918,308</u>
End of year	\$1,069,176 =====	\$ 987,037 =====

See notes to financial statements.

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Statement of Cash Flows - Proprietary Fund Type

For the years ended September 30, 1998 and 1997

Increase (Decrease) in Cash and Cash Equivalents

	<u>9-30-98</u>	<u>9-30-97</u>
Cash flows from operating activities:		
Cash received from customers	\$ 347,406	\$ 348,022
Cash payments for personal services	(71,246)	(80,957)
Cash payments for operating services	(199,522)	(194,967)
Cash payments for supplies	<u>(6,506)</u>	<u>(6,530)</u>
Net cash provided by operating activities	<u>70,132</u>	<u>65,568</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(45,706)	(18,873)
Construction contract payable	--	(15,306)
Principal paid on revenue bond maturities	(40,000)	(40,000)
Interest paid on revenue bonds	(7,638)	(10,179)
Investment in Joint Waterworks Commission	<u>(14,788)</u>	<u>(16,475)</u>
Net cash used for capital and related financing activities	<u>(108,132)</u>	<u>(100,833)</u>
Cash flows from investing and nonoperating revenue and expense activities:		
Ad valorem taxes	111,204	99,470
Interest income on investments	22,614	16,493
Redemption of investment securities	<u>10,747</u>	<u>12,470</u>
Net cash provided by nonoperating revenues and expenses	<u>144,565</u>	<u>128,433</u>
Cash flows from noncapital financing activities		
Due from other governmental units	(5,291)	(2,083)
Cash from meter deposits	7,832	7,970
Due to other governmental units	<u>(53)</u>	<u>11</u>
Net cash provided (used) by noncapital financing activities	<u>2,488</u>	<u>5,898</u>
Net increase (decrease) in cash and cash equivalents	109,053	99,066

EXHIBIT C

	<u>9-30-98</u>	<u>9-30-97</u>
Net increase (decrease) in cash and cash equivalents	109,053	99,066
Cash and cash equivalents at beginning of year	<u>329,905</u>	<u>230,839</u>
Cash and cash equivalents at end of year	\$ 438,958 =====	\$ 329,905 =====
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (43,433)	\$ (37,512)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	84,529	84,079
Amortize tower maintenance	16,518	16,518
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,663)	6,470
(Increase) decrease in inventory	(189)	(1,274)
(Increase) decrease in prepaid expenses	(48)	(899)
Increase (decrease) in accounts payable	11,742	1,938
Increase (decrease) in due to governmental units	<u>4,676</u>	<u>(3,752)</u>
Net cash provided by operating activities	\$ 70,132 =====	\$ 65,568 =====
Cash and cash equivalents - Unrestricted:		
Cash	\$ 130,875	\$ 29,053
Investments	100,000	130,000
Cash and cash equivalents - Restricted:		
Cash	163,546	127,787
Investments	<u>44,537</u>	<u>43,065</u>
Total	\$ 438,958 =====	\$ 329,905 =====

See notes to financial statements.

1997 43,000

WATERWORKS DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998

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WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to Financial Statements

September 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Waterworks District No. 2 was created and established May 14, 1952 pursuant to the provisions of an ordinance adopted by the Police Jury of the Parish of St. Mary, State of Louisiana, in compliance with the provisions of Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950. The District is composed of and managed by six board of commissioners. The District is authorized to do all things necessary to provide distribution of treated water for human consumption and maintenance of the system needed to perform this service.

The financial statements of Waterworks District No. 2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

The District (a proprietary fund) applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Reporting Entity

GASB Statement No. 14, Governmental Reporting Entity, establishes criteria for determining which organizations should be included in a governmental financial reporting entity. The focal point for defining the financial reporting entity is the primary government. The Waterworks District No. 2 is a component unit of the St. Mary Parish Council (primary government) and, as such, these financial reports may be included in the CAFR of the Council for the year ended December 31, 1998. The Waterworks District No. 2 has followed GASB-14 guidance to determine that there are no financial statements of other organizations that should be combined with their statements to form a financial reporting entity.

Fund Accounting

The accounting system is organized and operated on a fund basis whereby a separate self-balancing set of accounts is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's statements and Interpretations, APB Opinions and ARBs issued, except for those that conflict with or contradict GASB pronouncements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Type

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

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Their reported 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 Waterworks System is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Definition of Cash and Cash Equivalents

For purposes of the statement of cash flows, the Waterworks District No. 2 considers all cash or investments (certificates of deposit only), including restricted assets, to be cash or cash equivalents.

Budgets and Budgetary Accounting

The Waterworks District No. 2 follows these procedures in establishing administrative budgetary accounting:

- a. An administrative budget is employed as a management planning and control device during the year for the Proprietary Fund. The forecasted budget is prepared on a basis consistent with generally accepted accounting principles (GAAP), which for the Proprietary Fund is the accrual basis of accounting.
- b. The Proprietary Fund Statement of Income, Expenses, and Changes in Retained Earnings does not reflect budget and actual comparisons of the administrative budget because it is not a legally adopted budget.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

In accordance with the revenue bond covenants, certain resources are set aside for the repayment of the bonds. These funds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Joint Venture

The Waterworks District No. 2 and the Town of Berwick jointly constructed a water treatment plant to provide a water supply to each entity. Each participant has a 50% interest in the venture. The cost of constructing the plant was borne by the two communities, and they have appointed a board to operate and maintain the plant. The Berwick-Bayou Vista Joint Waterworks Commission was created to maintain, operate and administer the joint water treatment plant. The District has included its share of the joint venture cost and current operations in these financial statements using the equity method of accounting. See Note G for additional disclosure.

Investments

State statutes authorize the District to invest in direct obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of principal and interest of such obligations is fully guaranteed by the United States; obligations of U.S. government instrumentalities which are federally sponsored; direct security repurchase agreements of obligations of the U.S. Treasury or U.S. government instrumentalities; time certificates of deposit or savings accounts; and mutual or trust fund institutions which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

Investments are stated at cost or amortized cost, which approximates market. No write-down has been made to reflect the decline in market value of GNMA pass through pool investments because the declines are considered temporary and the investments are considered to be long-term investments.

Inventory

The Proprietary Fund inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Fixed Assets

The Waterworks System is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included in the balance sheet. All property, plant and equipment are valued at historical cost or estimated historical cost if

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets (Continued)

actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated.

Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water plant	10-40 years
Distribution system	10-33 years
Administrative buildings	10-40 years
Furniture and equipment	10-40 years
Automobiles and trucks	6 years

Bad Debts

The financial statements contain no allowance for uncollectable accounts receivables which is a generally accepted accounting principle. Uncollectable receivables are charged off at the time information becomes available which would indicate the uncollectability of the particular receivable. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

Accumulated Vacation, Compensatory Time and Sick Leave

Accumulated vacation, compensatory time and sick leave are recorded as an expenditure of the period in which paid. At September 30, 1998 unrecorded liabilities for the above are of an immaterial amount.

Bond Issuance Cost

Bond issuance costs are capitalized and amortized on a straight-line basis over the life of the bonds. Bond issuance costs are recorded as "Unamortized Bond Expense".

Total Column on Combined Balance Sheet

The total column on the Combined Balance Sheet is captioned Memorandum Only to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in 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.

NOTE B - CASH AND INVESTMENTS

The Waterworks District No. 2 may invest in time deposits or certificate of deposits of state banks or savings and loan associations or savings banks organized under Louisiana law and national banks having principle offices in Louisiana. State law requires that deposits be fully collateralized at all times. Acceptable collateralization includes the \$100,000 FDIC/FSLIC insurance and the market value of securities purchased and pledged. Obligations of the United States, the State of Louisiana and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the District or with an unaffiliated bank or trust company for the account of the District.

The District's cash and investments are categorized to give an indication of the level of risk assumed by the District at September 30, 1998:

- Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 - Uncollateralized or securities uninsured or unregistered and held by the counter party (this includes GNMA Pool investments and mutual fund shares held in "book-entry-only" form by brokerage firms)

Cash and investments (including restricted assets) stated at cost consist of the following:

Checking and money market accounts	\$282,491
Certificate of deposit	144,536
GNMA pool investments	49,923
Mutual fund money market	<u>11,931</u>
Total cash and investments	\$488,881 =====

Cash and investments categorized by level of risk are:

	<u>Cost</u>	<u>Market Value</u>
Amounts insured by the FDIC or collateralized with securities held by the District in its name	\$427,027	\$427,071
Amounts collateralized with securities held by the pledging financial institution's trust department in the District's name	--	--
Uncollateralized, uninsured or unregistered	<u>61,854</u>	<u>60,186</u>
Total cash and investments	\$488,881 =====	\$487,257 =====

NOTE C - DUE TO/FROM OTHER GOVERNMENTAL UNITS

	<u>Due From Other Governments</u>	<u>Due To Other Governments</u>
Due from Recreation District No. 3 (Inter-governmental service)	\$9,625	--
Due to Berwick-Bayou Vista Joint Waterworks (Water purchases)		\$11,966
Due to Sewerage District No. 2 (Inter-governmental service - sewerage fees)	--	46,388
Due to St. Mary Parish Council (Inter-governmental service - garbage fees)	<u>--</u>	<u>16,735</u>
	\$9,625	\$75,089
	=====	=====

NOTE D - WATERWORKS SYSTEM AND EQUIPMENT

A Summary of the Waterworks System Plant and Equipment follows:

<u>Property</u>	<u>Annual Straight-Line Depreciation Rate</u>	<u>9-30-98</u>	<u>9-30-97</u>
Construction in process		\$ 14,397	\$ --
Land		5,024	5,024
Water plant	2.5% - 10%	838,485	838,485
Distribution system	3.03% - 10%	1,566,233	1,538,308
Administrative buildings	2.5% - 10%	40,527	40,527
Furniture and equipment	2.5% - 10%	70,930	70,055
Truck	25%	<u>20,404</u>	<u>20,404</u>
TOTAL		2,556,000	2,512,803
Less accumulated depreciation		<u>(1,874,337)</u>	<u>(1,792,318)</u>
NET		\$ 681,663	\$ 720,485
		=====	=====

NOTE E - LONG-TERM DEBT

The following is a summary of bond transactions of the District for the years ended September 30, 1998 and 1997:

	Water Revenue Bonds	
	1998	1997
Bonds payable at beginning of year	\$ 130,000	\$ 170,000
Debt retired	(40,000)	(40,000)
Bonds issued	--	--
Bonds payable at end of year	\$ 90,000	\$ 130,000

The annual requirements to amortize the outstanding principal and interest on the 6.10% Water Revenue Refunding Bonds, Series 1992, dated June 1, 1992 at September 30, 1998 are as follows:

<u>Water Revenue Bonds</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998-2000	\$ 90,000	\$ 5,490	\$ 95,490
TOTALS	\$ 90,000	\$ 5,490	\$ 95,490

Water Revenue Bonds and Water Revenue Refunding Bonds

On April 13, 1992, the Waterworks District No. 2 had \$380,000 aggregate principal amount of outstanding Waterworks Utility Revenue Bonds, dated March 13, 1975. The United States of America, Farmers Home Administration, as the owner of the outstanding bonds, ordered the Waterworks District No. 2 to prepay and refund the outstanding balance of the \$380,000 bonds. Pursuant to Chapter 14-A of Title 39 of the Louisiana Revised Statutes of 1950, as amended, the District issued \$300,000 principal amount of its Water Revenue Refunding Bonds, Series 1992, for the purpose of prepaying and refunding the outstanding Revenue Bonds. The District paid the balance of the outstanding revenue bonds and all interest payments due from funds accumulated in the related sinking, reserve, and depreciation and contingencies funds. The balance of these funds reserved for debt retirement were transferred to the Revenue Fund (operating account), except for \$30,000 which was transferred to a Reserve Fund as part of the requirements of the Refunding Bonds issued.

Under the terms of bond indentures for the outstanding Water Revenue Refunding Bonds, the principal and interest is secured and payable solely from a pledge of the income and revenues to be derived from the operation of the Waterworks System. All revenues must be deposited in the Revenue Fund and required transfers made to the following Funds on a monthly basis after the payment of operating expenses.

Bond Sinking Fund - Monthly transfers are required to this Fund in an amount necessary to make the principal and interest payments as they become due. The Fund is restricted for this purpose.

NOTE E - LONG-TERM DEBT (Continued)

Bond Reserve Fund - The District was required to deposit \$30,000 into the "Reserve Fund" simultaneously with the delivery of the water revenue refunding bonds. The Fund is restricted to the payment of principal and interest in case of default.

Depreciation and Contingencies Fund - Monthly transfer of 5% of gross revenues of the System for the preceding month is required. Total transfers to the fund was \$21,536 and \$21,024 for 1998 and 1997, respectively. The Fund is restricted to payments for extensions, additions, improvements, renewals and replacements necessary to properly operate the System. It will also be used to pay principal and interest if there are not sufficient funds in the Sinking Fund and Bond Reserve Fund. No amounts were transferred to the Revenue Fund in the years ending 1998 and 1997, respectively, to be used for the cost of renewals and replacements necessary for the water system.

There are a number of limitations, restrictions, and requirements contained in the Water Revenue Refunding Bonds. The District is in compliance with all significant limitations, restrictions, and requirements.

NOTE F - RETIREMENT PLAN

All Waterworks District employees are covered under the Federal Insurance Contribution Act (Social Security). In addition, qualified employees also belong to a SEP/IRA Retirement Plan that was established by the Waterworks District in 1990. The District contributes 5% of the gross wages of each qualified employee to their individual SEP/IRA Retirement Plan account on a monthly basis.

The Waterworks District contributions to the above plans totaled approximately \$5,638 and \$7,043 for the years ended September 30, 1998 and 1997, respectively. This amount is paid to the Retirement Systems which are responsible for administering the plan and disbursing benefits. There were no unfunded contributions under either plan at September 30, 1998.

NOTE G - INVESTMENT - BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION

All of the water sold by Waterworks District No. 2 is obtained from Berwick-Bayou Vista Joint Waterworks Commission. The Berwick-Bayou Vista Joint Waterworks Commission was created and established with the sole responsibility and duty to maintain, operate, and administer the joint water treatment plant for District No. 2 and Town of Berwick. The water treatment plant was constructed and is owned by the District and the Town of Berwick, Louisiana. The District and the Town of Berwick appoint the members of the Board of Commissioners for the Joint Waterworks Commission. The District's portion of the cost of the plant

NOTE G - INVESTMENT - BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION
(Continued)

is carried in property, plant and equipment. Amounts reported as an investment in other assets represents the District's equity in the joint venture. The Berwick-Bayou Vista Joint Waterworks Commission reports as a component unit of the St. Mary Parish Council. The following is a summary of selected financial information of the Berwick-Bayou Vista Joint Waterworks Commission:

	<u>Year Ended</u> <u>9-30-98</u>	<u>Year Ended</u> <u>9-30-97</u>
Total assets	\$ 227,526	\$ 195,610
Total liabilities	37,217	34,876
Total fund equity	190,309	160,734
Total revenues	337,036	340,738
Total expenditures	307,461	307,789
Net income	29,575	32,949

Waterworks District No. 2 purchased the following quantities and amounts of water from the Joint Waterworks Commission:

	<u>Year Ended</u> <u>9-30-98</u>	<u>Year Ended</u> <u>9-30-97</u>
Gallons of water purchased	190,295,000	189,729,000
Cost of water purchases	\$ 126,036	\$ 122,229

NOTE H - PREPAID WATER TOWER MAINTENANCE

The District has recorded the total cost of having its 250,000 gallon water storage tank coated, painted, and repaired as prepaid water tower maintenance. The project was completed September 10, 1996 at a total cost of \$165,184. This cost will be amortized over its estimated useful life of ten years beginning in October, 1996.

Total prepaid water tower maintenance	\$165,184
Amortization to date	<u>(33,036)</u>
Net prepaid water tower maintenance	\$132,148
	=====

NOTE I - SUBSEQUENT EVENT

On October 1, 1998, the District entered into an agreement with a contractor for the construction of an eight-inch waterline along LA Highway 182 from Pluto Street to the Patterson city limits. The total project cost is \$149,245.35 and the general contractor has provided a performance bond in that amount. The project is being funded with resources of the District.

NOTE J - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the District's operations as early as fiscal year 1999.

NOTE J - YEAR 2000 ISSUE (Continued)

Waterworks District No. 2 has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the District's operations:

- The District's utility billing system and financial reporting system are currently being remediated. External vendors have remediated each of the computer systems and electronic equipment necessary for the District's utility billing system and financial reporting system and they believe them to be year 2000 compliant. Validation and testing have yet to be completed by the District. The District has committed approximately \$5000 to complete these projects, in accordance with vendors estimate of costs. Management has a viable contingency plan to manually prepare monthly utility bills and financial reports in the event of significant delays or problems are encountered in its Year 2000 remediation process.

- Ad valorem tax assessment, collection, and remittance for the District is handled by St. Mary Parish Assessor and St. Mary Parish Sheriff, respectively. The Assessor and Sheriff are responsible for remediating their systems, and are solely responsible for any costs associated with these projects. Both the Assessor and Sheriff have begun the remediation process on their systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be year 2000 ready.

SUPPLEMENTARY SCHEDULES

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Balance Sheets - Proprietary Fund Type

September 30, 1998 and September 30, 1997

	<u>9-30-98</u>	<u>9-30-97</u>
ASSETS		
Current		
Cash	\$ 130,875	\$ 29,053
Investments, at cost	110,044	142,376
Accounts receivable		
Utility customers	102,478	98,815
Due from other governmental		
units	9,625	4,334
Interest receivable	2,139	2,139
Inventory - at cost	10,813	10,624
Prepaid expenses	<u>4,600</u>	<u>4,552</u>
Total Current Assets	<u>370,574</u>	<u>291,893</u>
Restricted		
Meter Deposit Fund		
Cash	63,808	49,887
Investments, at cost	62,792	68,636
Revenue Bond Sinking Fund		
Cash	37,824	34,684
Investments, at cost	--	--
Revenue Bond Reserve Fund		
Cash	10,655	13,492
Investments, at cost	21,623	22,723
Depreciation and Contingencies Fund		
Cash	51,260	29,724
Investments, at cost	<u>--</u>	<u>--</u>
Total Restricted Assets	<u>247,962</u>	<u>219,146</u>
Waterworks System and Equipment	<u>681,663</u>	<u>720,485</u>
Other		
Prepaid water tower maintenance	132,148	148,666
Investment in Berwick-Bayou Vista		
Joint Waterworks Commission	102,905	88,117
Unamortized bond expense	<u>1,602</u>	<u>2,516</u>
Total Other Assets	<u>236,655</u>	<u>239,299</u>
TOTAL ASSETS	<u>\$1,536,854</u>	<u>\$1,470,823</u>
	=====	=====

SCHEDULE 1

	<u>9-30-98</u>	<u>9-30-97</u>
LIABILITIES		
Current		
Payable from current assets		
Accounts payable and accrued expenses	\$ 22,040	\$ 10,298
Contracts payable	--	--
Due to other governmental units	<u>75,089</u>	<u>70,413</u>
Total Current Liabilities	<u>97,129</u>	<u>80,711</u>
Payable from restricted assets		
Accrued interest payable-		
Revenue Bond Sinking Fund	686	991
Bond payable within one year	45,000	40,000
Due to other governmental units	<u>116</u>	<u>169</u>
Total Current Restricted Liabilities	<u>45,802</u>	<u>41,160</u>
Meter Deposits	<u>121,410</u>	<u>113,578</u>
Long-term Bonded Debt	<u>45,000</u>	<u>90,000</u>
TOTAL LIABILITIES	<u>309,341</u>	<u>325,449</u>
FUND EQUITY		
Contributed Capital	<u>158,337</u>	<u>158,337</u>
Retained Earnings		
Reserves required by revenue bond indentures	121,362	100,623
Unreserved	<u>947,814</u>	<u>886,414</u>
Total Retained Earnings	<u>1,069,176</u>	<u>987,037</u>
Total Fund Equity	<u>1,227,513</u>	<u>1,145,374</u>
TOTAL LIABILITIES AND FUND EQUITY	\$1,536,854	\$1,470,823
	=====	=====

See notes to financial statements.

SCHEDULE 2

WATERWORKS DISTRICT NO. 2 OF THE PARISH OS ST. MARY
STATE OF LOUISIANA

Combined Schedule of Investments

September 30, 1997

	<u>Maturity</u>	<u>Rate</u>	<u>Cost</u>	<u>Market Value</u>
REVENUE FUND				
Time Certificates of Deposit Bank Oklahoma, NA Tulsa	10-1-98	5.25%	100,000	99,994
Mortgaged-Backed Securities GNMA pass through pool	Monthly	7.25%-11.0%	<u>10,044</u>	<u>9,865</u>
			<u>110,044</u>	<u>109,859</u>
METER DEPOSIT FUND				
Time Certificates of Deposit LaSalle Nat'l Bank-Chicago	1-12-99	6.40%	12,759	12,785
Teche Federal Savings Bank	8-15-00	5.00%	20,000	20,000
Mortgage-Backed Securities GNMA pass through pool	Monthly	7.25%-11.5%	21,314	20,238
GNMA pass through pool	Monthly	8.50%	<u>8,719</u>	<u>8,961</u>
			<u>62,792</u>	<u>61,984</u>
REVENUE BOND SINKING FUND				
None.				
REVENUE BOND RESERVE FUND				
Time Certificates of Deposit LaSalle Nat'l Bank-Chicago	1-12-99	6.40%	11,778	11,801
Mortgage-Backed Securities GNMA pass through pool	Monthly	11.0%	2,556	2,369
GNMA pass through pool	Monthly	7.25%	<u>7,289</u>	<u>6,822</u>
			<u>21,623</u>	<u>20,992</u>
TOTAL WATERWORKS SYSTEM			\$194,459	\$192,835
			=====	=====

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Statement of Changes in Assets
Restricted for Water Revenue Refunding Bonds Debt Service
Series Dated 1992

For the year ended September 30, 1998

	<u>Total</u>	<u>Refunding Bond Sinking Fund</u>	<u>Refunding Bond Reserve Fund</u>	<u>Refunding Bond Contingencies Fund</u>
Assets restricted for refunding bond debt service, Sept. 30, 1998	\$100,623	\$ 34,684	\$ 36,215	\$ 29,724
Receipts				
Transfer from Revenue Fund	<u>71,386</u>	<u>49,850</u>	<u>--</u>	<u>21,536</u>
TOTAL ASSETS AVAILABLE FOR DEBT SERVICE	<u>172,009</u>	<u>84,534</u>	<u>36,215</u>	<u>51,260</u>
Disbursements				
Transfer to Revenue Fund	3,937	--	3,937	--
Retirement of matured Bonds	40,000	40,000	--	--
Payment of matured interest coupons	<u>6,710</u>	<u>6,710</u>	<u>--</u>	<u>--</u>
TOTAL DISBURSEMENTS	<u>50,647</u>	<u>46,710</u>	<u>3,937</u>	<u>--</u>
Assets restricted for revenue bond debt service, September 30, 1998	\$121,362 =====	\$ 37,824 =====	\$ 32,278 =====	\$ 51,260 =====
Composed of				
Cash	\$ 99,739	\$ 37,824	\$ 10,655	\$51,260
Investments	<u>21,623</u>	<u>--</u>	<u>21,623</u>	<u>--</u>
TOTALS	<u>\$121,362</u> =====	<u>\$ 37,824</u> =====	<u>\$ 32,278</u> =====	<u>\$51,260</u> =====

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Payments for Board of Commissioners Meetings

September 30, 1998

	<u>Meetings Attended</u>	
WATERWORKS DISTRICT NO. 2		
Don Ryan, Chairman	11	\$ 660
Herbert Adams, Commissioner	9	540
Dan McCloy, Commissioner	10	600
John Head, Commissioner	12	720
Irvin Richard	7	<u>420</u>
		\$2,940
BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION		
Irvin Richard, Commissioner	12	720
Clarence Hebert, Commissioner	12	<u>720</u>
	TOTAL	\$4,380 =====

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Schedule of Gallons of Water Purchased and Sold
and Number of Water Customers

For the years ended September 30, 1998 and 1997

(Unaudited)

	<u>9-30-98</u>	<u>9-30-97</u>
Gallons purchased for the period	190,295,000	189,729,000
Gallons sold for the period	154,670,581	147,907,160
Number of users at 9-30-98 and 9-30-97	1,770	1,739
Gallons not sold for the period	35,624,419	41,821,840
Cost per 1000 gallons purchased	.6600	.6442
Cost of gallons not sold	23,512	\$ 26,942

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Insurance

September 30, 1998

(Unaudited)

<u>Insurer</u>	<u>Amount of Policy</u>	<u>Risks Covered</u>	<u>Expiration Date</u>
Transcontinental Insurance Company	\$ 83,000 31,500	Office fire Building and contents Warehouse and contents	4-26-99
Louisiana Workers' Compensation Corp.	100,000	Worker's Compensation	4-26-99
Transcontinental Insurance Company	1,000,000	Comprehensive General liability	4-26-99
Valley Forge Insurance Company	1,000,000	Auto liability	4-26-99
Fidelity & Casualty Company of New York	500,000	Honesty blanket bond coverage on employee and commissioner	11-21-98
Reliance Insurance Company	900,000 495,000 31,000	Joint purification plant Building Contents Tank building	2-01-99

WATERWORKS DISTRICT NO. 2 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Water Rates

September 30, 1998

The Board of Commissioners approved a water rate increase on September 11, 1995, effective October 1, 1995. The new water rate is as follows:

First 3,000 Gallons - \$6.00
Over 3,000 Gallons - \$1.90 per 1000

For the period October 1992 to September 30, 1995, the water rates were as follows:

First 3,000 Gallons - \$4.75
Over 3,000 Gallons - \$.17 per 100

For the period August 1988 to September 30, 1992, the water rates were as follows:

First 3,000 Gallons - \$4.00
Over 3,000 Gallons - \$.14 per 100

Prior to August, 1988 the water rates were as follows:

First 3,000 Gallons	-	\$3.35
Next 3,000 Gallons	-	\$1.05 Per 1,000
Next 5,000 Gallons	-	\$1.00 Per 1,000
Next 8,000 Gallons	-	\$.95 Per 1,000
Next 10,000 Gallons	-	\$.90 Per 1,000
Next 10,000 Gallons	-	\$.85 Per 1,000
Next 11,000 Gallons	-	\$.80 Per 1,000
Next 50,000 Gallons	-	\$.70 Per 1,000

WATERWORKS DISTRICT NO. 2
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

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

PERIODS ENDED SEPTEMBER 30, 1998 AND 1997

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SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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
Parish of St. Mary
Bayou Vista, Louisiana

We have audited the general purpose financial statements of Waterworks District No. 2, as of and for the years ended September 30, 1998 and 1997, and have issued our report thereon dated January 18, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Waterworks District No. 2's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waterworks District No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Waterworks District No. 2's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Our examination disclosed that there is very little segregation of duties within the District's accounting function, particularly in the areas of cash receipts, bank reconciliations, cash disbursements, general ledger and journal entries. This weakness is due to the fact that the District employs only two persons in the bookkeeping function. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, due to the limited number of accounting personnel, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also, the cost of additional employees might exceed any benefits gained. The management of the District is well aware of the loss of internal control that results with their limited staff and are constantly on watch for any problems that would arise.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Commissioners (management), St. Mary Parish Council, and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

LeBlanc and Carpenter

January 18, 1999
Morgan City, Louisiana