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EBARB WATERWORKS DISTRICT NO. 1

Financial Statements, Additional Information,
Internal Control and Compliance

Year Ended December 31, 1997

with

Independent Auditor's Reports

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

Release Date APR 1 1999

**EBARB WATERWORKS DISTRICT NO. 1
FINANCIAL STATEMENTS, ADDITIONAL INFORMATION,
INTERNAL CONTROL AND COMPLIANCE
YEAR ENDED DECEMBER 31, 1997**

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WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS

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

We have audited the accompanying general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of and for the year ended December 31, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of Ebarb Waterworks District No. 1. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

We were unable to obtain a discussion or evaluation from the District's outside legal counsel of the pending or threatened litigation described in Note E. We were also unable to obtain minutes of all meetings of the District's Board of Commissioners.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain a discussion or evaluation of pending or threatened litigation from the District's outside legal counsel and minutes of all meetings of the District's Board of Commissioners as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Ebarb Waterworks District No. 1, a component unit of the Sabine Parish Police Jury, as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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To the Board of Commissioners
Ebarb Waterworks District No. 1

Page Two

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

May + Company

Vicksburg, Mississippi
March 12, 1999

COMPONENT UNIT FINANCIAL STATEMENTS

**EBARB WATERWORKS DISTRICT NO. 1
BALANCE SHEET
DECEMBER 31, 1997**

ASSETS

CURRENT ASSETS:

Cash	\$ 8,164
Accounts receivable, net	<u>46,593</u>
Total current assets	<u>54,757</u>

PROPERTY, PLANT AND EQUIPMENT:

Land	72,530
Plant	1,459,212
Mains	2,101,534
Pumps	102,856
Services	253,280
Meters	<u>548,474</u>
	4,537,886
Less accumulated depreciation	<u>885,789</u>
Net property, plant and equipment	<u>3,652,097</u>

OTHER ASSETS:

Restricted cash and cash equivalents	<u>1,431</u>
Total other assets	<u>1,431</u>

TOTAL ASSETS **\$ 3,708,285**

See accompanying notes to financial statements.

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 28,296
Accounts payable - other	573,240
Accrued interest payable	16,145
Other accrued expenses	1,945
Current maturities of long-term debt	<u>2,981,156</u>
 Total current liabilities	 <u>3,600,782</u>

CONTINGENCIES

FUND EQUITY:

Contributed capital, net of \$309,831 of accumulated amortization	<u>836,169</u>
 Retained earnings (deficit):	
Reserved for revenue bonds	1,431
Unreserved deficit	<u>(730,097)</u>
 Total retained earnings (deficit)	 <u>(728,666)</u>
 Total fund equity	 <u>107,503</u>

TOTAL LIABILITIES AND FUND EQUITY **\$ 3,708,285**

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1997**

OPERATING REVENUES:

Water sales	\$ 508,981
Other fees	53,060
Miscellaneous	<u>24,752</u>
Total operating revenues	<u>586,793</u>

OPERATING EXPENSES:

Water purchased	120,393
Water treatment	48,738
Salaries	1,750
Repairs and maintenance	25,061
Depreciation	111,609
Management expense:	
Operating	58,967
Finance charges	308,429
Utilities and telephone	34,738
Postage	6,303
Insurance	5,909
Professional fees	9,167
Transportation	2,943
Advertising	173
Other costs and expenses	<u>8,352</u>
Total operating expenses	<u>742,532</u>

OPERATING LOSS (155,739)

NONOPERATING REVENUES (EXPENSES):

Interest on bonds	(152,194)
Investment income	<u>29</u>
Net nonoperating revenues (expenses)	<u>(152,165)</u>

NET LOSS (307,904)

Continued

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS - CONTINUED
YEAR ENDED DECEMBER 31, 1997**

Amortization of fixed assets acquired with restricted federal grant	<u>28,650</u>
DECREASE IN RETAINED EARNINGS	(279,254)
RETAINED EARNINGS (DEFICIT) - beginning	<u>(449,412)</u>
RETAINED EARNINGS (DEFICIT) - ending	<u>\$ (728,666)</u>

See accompanying notes to financial statements.

**EBARB WATERWORKS DISTRICT NO. 1
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1997**

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating loss	\$ (155,739)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	111,609
Changes in:	
Accounts receivable	(9,921)
Other assets	(29)
Accounts payable	366
Accounts payable - other	254,851
Accrued interest payable	3,797
Other accrued expenses	<u>74</u>
Net cash provided by operating activities	<u>205,008</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments on obligations	(55,893)
Interest paid	<u>(152,165)</u>
Net cash used in capital and related financing activities	<u>(208,058)</u>
Net decrease in cash	(3,050)

CASH, at beginning of year 11,214

CASH, at end of year \$ 8,164

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended December 31, 1997, the District charged \$28,650 in amortization against contributed capital.

See accompanying notes to financial statements.

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant of the District's accounting policies are described below:

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE A. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Reporting Entity

This report includes the fund which is controlled by the Board of Commissioners. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

No potential component units of the District are known to exist which would be accountable to, or fiscally dependent on, the District.

Fund Accounting

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

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE A. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary fund type

Enterprise Fund

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

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE A. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncollectible Allowance

Uncollectible amounts are recognized as bad debts through the establishment of *an allowance account at the time information becomes available indicating the uncollectibility of a particular receivable*. There was no such account at December 31, 1997.

Property, Plant and Equipment

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

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

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

Accumulated Compensated Absences

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

Membership Fees

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

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997**

NOTE B. DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 1997, the carrying amount of the District's deposits (checking and savings) was \$9,595 and the bank balance was \$33,785. The bank balance was adequately covered by federal depository insurance (Category 1). There were no repurchase or reverse repurchase agreement at December 31, 1997.

NOTE C. PROPERTY, PLANT AND EQUIPMENT

A summary of the fixed assets and depreciation at December 31, 1997 is as follows:

<u>Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Current Depreciation</u>
Land	\$ 72,530	\$ -	\$ 72,530	\$ -
Plant	1,459,212	290,154	1,169,058	36,455
Mains	2,101,534	418,937	1,682,597	52,538
Pumps	102,856	19,845	83,011	2,571
Services	253,280	48,144	205,136	6,332
Meters	<u>548,474</u>	<u>108,709</u>	<u>439,765</u>	<u>13,713</u>
	<u>\$ 4,537,886</u>	<u>\$ 885,789</u>	<u>\$ 3,652,097</u>	<u>\$ 111,609</u>

NOTE D. LONG-TERM DEBT

At December 31, 1997, long-term debt consists of the following:

5% revenue bonds payable to Rural Development (RD), dated February 4, 1982; payable in annual installments of \$25,673, including interest, through 2022 and collateralized by a pledge and assignment of water revenues.	\$ 362,361
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**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997**

NOTE D. LONG-TERM DEBT - CONTINUED

5% revenue bonds payable to RD, dated December 20, 1990; payable in annual installments of \$116,071, including interest, through 2030 and collateralized by a pledge and assignment of water revenues.	1,853,278
5% reamortized loan payable to RD, dated February 4, 1991; payable in annual installments of \$8,808, including interest, through 2022 and collateralized by a pledge and assignment of water revenues.	121,572
5.25% revenue bond payable to RD, dated June 23, 1993; payable in annual installments of \$41,013, including interest, through 2033 and collateralized by a pledge and assignment of water revenues.	<u>643,945</u>
	2,981,156
Less current maturities	<u>2,981,156</u>
	<u><u>\$ -</u></u>

Anticipated future debt retirement over the next five years and thereafter is as follows at December 31, 1997:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 2,981,156	\$ -	\$2,981,156

Continued

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE D. LONG-TERM DEBT - CONTINUED

The following is a summary of revenue bond transactions of the District for the year ended December 31, 1997:

Bonds payable at January 1, 1996	\$ 3,037,049
Bonds retired	<u>55,893</u>
Bonds payable at December 31, 1997	<u>\$ 2,981,156</u>

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

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

Due to insufficient revenues, the District was unable to make monthly deposits as specified above during the year ended December 31, 1997. Therefore, for the year ended December 31, 1997, the reserve and depreciation and contingency accounts were underfunded. Funds are not required to be accumulated in a revenue bond sinking fund to make annual principal and interest payments. Instead, monthly payments of principal and interest are made to RD.

In accordance with the bond agreements with RD, the District is required to maintain various covenants. At December 31, 1997, the District was in breach of the requirements to maintain certain funds in reserve and contingency and depreciation accounts as described above. RD has the right to call the bonds if the District is in violation of the bond agreement. As of March 12, 1999, RD has not waived the working capital requirement, and accordingly, the entire amount of the bonds, \$2,981,156, has been included in current liabilities.

Continued

**EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997**

NOTE D. LONG-TERM DEBT - CONTINUED

The following is a summary of the transactions in the reserve and depreciation and contingency accounts, which are reported as restricted cash due to outside third-party restrictions:

	<u>Reserve Account</u>	<u>Depreciation and Contingency Account</u>	<u>Total</u>
Balance at January 1, 1997	\$ 672	\$ 730	\$ 1,402
Withdrawals during 1999	-	-	-
Interest earned in 1999	<u>14</u>	<u>15</u>	<u>29</u>
Balance at December 31, 1997	<u>\$ 686</u>	<u>\$ 745</u>	<u>\$ 1,431</u>

NOTE E. CONTINGENCIES

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

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

As of March 12, 1999, the District's attorney of record failed to provide a response to a request for information regarding actual and pending litigation, and unasserted claims and assessments. The District is involved in various other litigation. At least one of these claims involves UDS Management Corporation, the entity contracted to manage the District. However, the status of this claim or others is not available for disclosure. The Auditor's opinion has been qualified to reflect this limitation on the scope of the audit engagement.

Losses, if any, arising from the above lawsuits and disputes cannot be estimated as of December 31, 1997.

Continued

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE F. WATER SUPPLY

Although other sources can be made available, the District currently obtains its water supply from the Sabine River Authority (12%) and Belmont Water System (88%).

NOTE G. CONTRIBUTED CAPITAL

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

NOTE H. LEASES

Ebarb Waterworks District No. 1, as lessee, has executed a lease with the Louisiana Department of Transportation and Development, Sabine River Authority. The lease is for 37.5 acres of land and expires on September 18, 2009, with an option for an additional thirty years. The agreement requires no lease payments, but rather the development of recreational facilities for residents.

NOTE I. MANAGEMENT AGREEMENT

On October 21, 1987, the District entered into an agreement with Utility Data Service Corporation (UDS) for operation and management of the District. On July 15, 1997, the agreement was renewed for an additional five years. The agreement provides a fee structure for various activities performed by UDS in the operation of the District's water treatment and distribution system. The agreement may be canceled by the Board of Commissioners at the end of three years from the date of the renewal with or without cause. For the year ended December 31, 1997, UDS billed the District \$58,967 for management and operation of the District and \$308,429 in interest charges resulting from the current year assessment of interest from 1988 to present. During 1997, management exercised its contractual right to assess interest on the balance the District owed to UDS. At December 31, 1997, the District owes UDS \$573,240 for fees and interest.

Continued

EBARB WATERWORKS DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED DECEMBER 31, 1997

NOTE J. FUND EQUITY

Reservations of retained earnings are limited to outside third-party restrictions. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers or customers.

NOTE K. SUBSEQUENT EVENTS

Subsequent to December 31, 1997, the District terminated its management contract with UDS Management Corporation prior to the expiration of the contract. This termination is the subject of dispute and possible litigation as described in Note I.

ADDITIONAL INFORMATION

**EBARB WATERWORKS DISTRICT NO. 1
SCHEDULE OF WATER RATES AND FEES (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 1997**

<u>Classification</u>	<u>Tariff</u>	<u>Rate</u>
Residential	Monthly minimum for 1,000 gallons	\$ 14.50
	Per 1,000 gallons thereafter	\$ 3.20
	Testing and reports	\$ 1.50
Industrial	Monthly minimum for 10,000 gallons	\$ 105.00
	Per 1,000 gallons thereafter	\$ 1.37
	Testing and reports	\$ 1.50
Commercial	Monthly minimum for 10,000 gallons	\$ 35.00
	Per 1,000 gallons thereafter	\$ 3.20
	Testing and reports	\$ 1.50
Agricultural	Monthly minimum for 20,000 gallons	\$ 15.00
	Per 1,000 gallons thereafter	\$ 2.25
	Testing and reports	\$ 1.50
Membership Fee	Membership Fee for Water Service (Transferable Only)	\$ 50.00
NSF Check Fee	NSF Account Return Charge	\$ 15.00
Connection Fee	Account Set-up Charge (Non-Transferable)	\$ 15.00
Transfer Service	Transfer Service to New Address/Location	\$ 30.00
Tap/Meter Fee	Install New Meter/Service (Same Road Side Tap)	\$ 300.00
Road Bore Charge	Install Road Bore for New Meter/Tap Service	\$ 250.00
Late Penalty Fee	Late Penalty for Payment After Due Date	\$ 2.50

Continued

**EBARB WATERWORKS DISTRICT NO. 1
SCHEDULE OF WATER RATES AND FEES (UNAUDITED) - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 1997**

<u>Classification</u>	<u>Tariff</u>	<u>Rate</u>
Late Payment Fee	Late Fee after Last Day to Pay Net Amount Water Bill	10%
Disconnect Fee	Service Charge to Disconnect Water Service for Nonpayment	\$ 25.00
Damaged Tap Fee	Customer Damaged/Broke Cutoff or Disconnect Lock	\$ 61.00

The District had an average of 1,533 metered customers during 1997 (1,544 metered customers at December 31, 1996) with total water sales of \$537,906 (including \$28,925 of DIHR testing and reports fees) for an average monthly bill of \$27.67 per customer.

The District's Board of Commissioners are not paid directly for their service to the Board. However, each commissioner receives a \$33.22 credit each month of board service which is available to be applied toward their water bill.

**EBARB WATER WORKS DISTRICT NO. 1
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 1997**

<u>Type</u>	<u>Policy Number</u>	<u>Company</u>	<u>Coverage</u>	<u>Expiration</u>
Property Damage	CL 62372651	American Indemnity Group	Ebarb Ward #1- Tanks & Controls - \$50,000 Ebarb Ward #2 - Tanks & Controls - \$50,000 Aimwell Location - Tanks & Controls - \$150,000 Negreet Location - Tanks & Controls - \$100,000 Sabine River Authority Park Site 11 - Tanks & Controls - \$150,000	May 1, 1998
General Liability	BL 050 718032	Ohio Casualty Group	\$1,000,000	May 1, 1998
Worker's Compensation and Employers' Liability	7326	La. Home Builders	\$500,000	April 1, 1998
Employee Dishonesty	52-0006-01028-1943	Western Surety Insurance	\$300,000	March 3, 1998



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

**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
Ebarb Waterworks District No. 1
Noble, Louisiana

We have audited the general purpose financial statements of Ebarb Waterworks District No. 1, a component unit of Sabine Parish Police Jury, as of and for the year ended December 31, 1997, and have issued our report thereon dated March 12, 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 Ebarb Waterworks District No. 1 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. Those instances are as follows.

Current year findings:

<u>Finding No.</u>	<u>Description</u>
97-1	<p>Criteria The resolution authorizing the revenue bonds requires that the District establish and fund a reserve and depreciation and contingency account.</p> <p>Condition At December 31, 1997, the deposit requirements of the reserve and depreciation and contingency accounts have not been met.</p>

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

Page Two

<u>Finding No.</u>	<u>Description</u>	
97-1 - continued	Cause	The deposit requirements have not been met due to the financial condition of the District.
	Effect	The District is in violation of the revenue bond covenants.
	Recommendation	We recommend that the required deposits be made as soon as possible and that the District begin making the required monthly deposits to each account.
97-2	Criteria	State law requires that minutes of meetings be recorded and subsequently published in a local newspaper.
	Condition	We were informed that meetings occurred and business was transacted during and subsequent to 1997 for which minutes were not recorded and, therefore, not subsequently published.
	Cause	A representative of the management company charged with the responsibility of keeping minutes stated that he was not allowed to keep minutes at certain meetings and was not informed of other meetings prior to their occurrence.
	Effect	The District appears to be in violation of the Open Meeting Law.
	Recommendation	Strict adherence to the Open Meeting Law is recommended.

Prior year findings:

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
Unnumbered	Underfunded reserve and depreciation and contingency accounts.	Unresolved - see current year finding 97-1



UDS MANAGEMENT CORPORATION
FEDERAL · PUBLIC · PRIVATE
UTILITY SYSTEMS OPERATIONS

2800 NORTH SEVENTH STREET
WEST MONROE, LOUISIANA 71291
(318) 397-2835

State of Louisiana
Legislative Auditors Office
P. O. Box 94397
Baton Rouge, La. 70804

March 10, 1999

Attn: Mrs. Joann Sanders

RE: *Management's Corrective Action Plan
Ebarb Waterworks District #1, Sabine Parish, Louisiana*

Gentlemen:

Our auditors, May & Company, Inc., have conducted an audit of the Ebarb Waterworks District financial statements as of December 31, 1997 for the annual period then ended. Concurrent with that report we are furnishing to you our proposed corrective action plan to correct the deficiencies noted in the report.

For the record, we would like to briefly state the historical events which lead to the appointment of our firm as administrator over the Ebarb Waterworks District.

The Ebarb Waterworks District ("Ebarb") was created March 16, 1977 by the Sabine Parish Police Jury pursuant to La. RS 33:3811 *et seq.* Ebarb was created for the purpose of providing water service to persons, businesses and industries located within its' franchise territorial boundaries.

By October of 1987, Ebarb was plagued with mounting indebtedness, default on bond payments, poor water quality, inadequate customer service and noncompliance with U.S. Environmental Protection Agency ("EPA"), Farmers Home Administration ("FmHA") and Louisiana State Health Department regulations.

As a result of the serious problems which plagued Ebarb, the FmHA (the payee of the bonds in default) forced the Ebarb Board of Commissioners at a meeting on October 20, 1987 to chose one of three alternatives, generally stated as follows:

- a. Immediately pay FmHA \$ 34,621.36 to bring the defaulted bond payments current; or,
- b. Suffer the consequences of FmHA instituting legal action the next day (on October 21, 1987) to foreclose on Ebarb for defaulting on bond payments; or,
- c. Enter into a contract with UDS to operate and maintain the water system.

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On October 20, 1987, the Ebarb Commissioners voted to contract with UDS to operate and maintain the water system. UDS is a full service utility manager, specializing in the development, financing, design, and construction of utility systems; maintenance and operations, and environmental testing and reporting.

The first contract between Ebarb and UDS was executed on October 21, 1987. Renewal contracts were executed on March 30, 1990, July 15, 1994, and July 15, 1997 (the four contracts between Ebarb and UDS are hereafter collectively referred to as the "Contracts").

In 1987, UDS immediately implemented a long-term plan to improve the water quality, comply with EPA, FmHA and Louisiana State Health Department regulations and establish Ebarb's financial viability. The plan included expanding the customer base and the construction of a new water plant. The long-term financing to pay for this new construction was funded by FmHA, and the financing to pay for the interim shortfall due to negative cash flow resulting from operations was funded by UDS.

As Ebarb was operating with a substantial negative cash flow, UDS assumed a significant financial risk when it entered into the Contracts with Ebarb. UDS immediately began to provide the money necessary to cover the negative cash flow and to implement the long-term plan which also included significant costs. As expected by all parties, Ebarb's debt to UDS increased yearly, until the plan was fully implemented, and in fact did increase yearly as follows:

<u>Year</u>	<u>Total Debt (principal and interest) of Ebarb to UDS annually</u>
1988	\$ 7,602.29
1989	\$ 72,518.94
1990	\$ 100,815.67
1991	\$ 150,818.46
1992	\$ 237,601.75
1993	\$ 274,652.53
1994	\$ 400,102.75
1995	\$ 503,096.05
1996	\$ 548,702.30

As of December 31, 1997 Ebarb owed UDS \$ 573,239.68, an amount which includes principle and interest.

As a result of UDS's management pursuant to the Contracts, and providing sufficient money to cover Ebarb's negative cash flow and operating expenses, the Ebarb water system had become a well operated, financially sound water system.

As the system was operating, under UDS's management, all debts to UDS would have been paid in full by the expiration of the 1997 contract term. The long-term financial projections indicated that the reserve accounts would have been fully funded by the end of the year 2000.

UDS's accomplishment of successfully salvaging Ebarb was recognized in an EPA publication, "Public-Private Partnership Case Studies - Profiles of Success in Providing Environmental Services".

The partnership between Ebarb and UDS, as established by the contracts, worked well and without conflict until August 11, 1997, when the Sabine Parish Police Jury terminated, without cause, the entire Ebarb Board of Commissioners. The Sabine Parish Police Jury immediately filled the majority of the vacancies on the Board of Commissioners with members openly hostile to UDS.

As a result of the politically motivated termination, without cause, of the entire Ebarb Board of Commissioners and the appointment of new Commissioners, a majority of which are openly hostile to UDS, a dispute arose regarding the construction and validity of the contracts under which UDS operated the Ebarb water system. Numerous lawsuits have been filed in the State and Federal Courts as a result of this dispute.

Nevertheless, UDS acting on behalf of management, pursuant to the authority granted under the Contracts, offers its Corrective Action Plan to resolve the following items noted in the Audit Report:

1. **Finding No. 97-1 - Funding of Reserve Accounts-** Attached hereto is a copy of Exhibit "L" and its' addendum which shows a Comparison of the Annual Income Statements and the Proposed 1997 Operating Budget. The Annual Comparison delineates the progress that Ebarb Water has made since 1987. In the Comparison you will note that Ebarb reached a break-even point in 1996. The 97' budget indicates that an operating profit of \$61,295.00 should be realized by years end. The proposed budget indicates that \$14,400.00 will be available for payment into the Depreciation Reserve at years end and additional amounts will be available as described in the plan for the Contingency Fund. The Bond Resolutions require a Depreciation Reserve of \$ 85,315.50 as of December 31, 2000. Management projects that the Depreciation Reserve will meet is funding requirements by December 31, 2000.

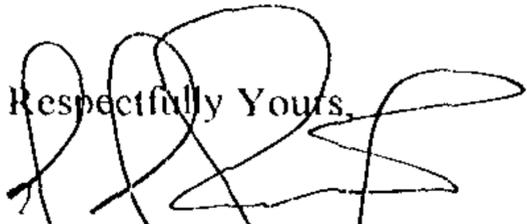
A financial analysis of the cost to produce surface water at the Ebarb Twin Islands water plant was prepared for the Ebarb Board of Directors by management. The results of the report indicated that the present cost of water production at this plant is \$1.95 per thousand gallons of water produced. An agreement to secure an alternate source of water was developed which would cost \$1.25 per thousand gallons produced, without the need for any additional debt or capital investment by Ebarb. The net saving to Ebarb will be \$.70 per

thousand gallons purchased from the alternate source. Total water production for Ebarb is 96.8 million gallons annually for a net annual savings of \$67,550.00. The reduction in operating costs and increase in revenues will provide an additional \$ 78,500.00 per year which will be allocated to the Depreciation and Contingency Fund. The bond resolutions require a Contingency Fund of \$ 128,986.99 as of December 31, 2000. Management projects the Contingency Fund will meet the funding requirements by December 31, 2000.

2. **Finding No. 97-2 - Lack of Meeting Minutes** - At no time when the preparation of meeting minutes for Ebarb was under the control of the Administrator was there a lack of meeting minutes. However, it has been noted and the Administrator is aware that subsequent to August 11, 1997 the Board of Commissioners met privately. No minutes were prepared to document that any business was transacted. No business will be transacted without the recording of minutes, however the administration can not control the actions of the Board Members outside the presence of the administrator.

Your assistance in this matter is greatly appreciated. We trust that the corrective actions we have outlined will be acceptable. Should you have any questions please contact our offices at 1-800-346-7123. As always, we remain with kindest and best regards.

Respectfully Yours,



J. Jeffery Pruck, President
UDS Corporation

JJP/jjp

**EBARB WATERWORKS DISTRICT NO. 1
SABINE PARISH
STATE OF LOUISIANA**

EXHIBIT "L"

**COMPARISON OF THE ANNUAL INCOME STATEMENTS
EBARB WATERWORKS DISTRICT NO. 1**

YEAR	REVENUES	% INCREASE	EXPENSES	PROFIT/ (LOSS)	%PROFIT (LOSS)
1987	\$79,221	0%	122,334	(43,113)	(54%)
1988	\$89,455	12%	138,493	(49,038)	(54%)
1989	\$89,961	0.5%	159,894	(69,933)	(77%)
1990	\$143,571	59%	134,077	9,494	6%
1991	\$231,673	61%	323,263	(91,589)	(39%)
1992	\$318,187	37%	459,325	(141,137)	(44%)
1993	\$387,842	22%	486,397	(98,555)	(25%)
1994	\$443,920	14%	618,513	(174,593)	(39%)
1995	\$497,158	11%	518,768	(21,610)	(4%)
1996	\$565,370	13%	566,049	(679)	(0.01%)
1997*	\$568,000	0.5%	506,705	61,295	11%

NOTE:

The Income and Expense calculations for 1997 are based on budget projections contained in OMB form 442-A Statement of Budget, Income & Equity for EWWD - 97'. The 1997 budget is attached hereto as an appendix.

EXHIBIT "L"
(APPENDUM)
EBARB WATERWORKS DISTRICT
SABINE PARISH, LOUISIANA

Proposed 1997 Fiscal Budget

OPERATING INCOME

Water Sales Revenue	\$516,000	
LA. SDWA Fees	24,500	
Penalties & Late Fees	14,700	
Other Fees	<u>12,800</u>	

PROJECTED 1997 REVENUE **\$568,000**

OPERATING EXPENSES

Communications	\$1,800	
Chemicals	28,900	
Insurance	7,000	
Accounting Fees	6,800	
Legal Fees	1,500	
Maintenance	10,600	
New Construction	5,100	
Management Fees	54,000	
Past Due Fees	48,400	
Utilities / Electric	32,500	
Water Purchased / Belmont	101,200	
Water Purchased / SRA	10,800	
Salary Reimbursement	<u>54,000</u>	

NET 1997 OPERATING EXPENSE **\$362,600**
NET 1997 OPERATING INCOME **\$205,400**

DEBT SERVICE EXPENSE

Interest Payments - FmHA	\$144,105	
Bond Principle Payments	46,895	
Allowance for Depreciation	<u>14,400</u>	
Reserves		

TOTAL 1997 DEBT SERVICE EXPENSE **\$205,400**

EBARB WATERWORKS DISTRICT NO. 1

Letter to Management

December 31, 1997



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

Ebarb Waterworks District No. 1
Sabine Parish, LA
2800 North 7th Street
West Monroe, Louisiana 71291

We have audited the financial statements of Ebarb Waterworks District No. 1 as of and for the year ended December 31, 1997, and have issued our report thereon dated March 12, 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.

As part of our examination, we have issued our report on the financial statements, dated March 12, 1999, and our report on compliance and internal control over financial statements performed in accordance with *Government Auditing Standards*, dated March 12, 1999.

During the course of our examination, we became aware of the following matter which represents an immaterial deviation of compliance.

Suggestion 97-1	Criteria	State Law requires a biennial audit of government entities with revenues between \$350,000 and \$3,500,000 unless directed otherwise by the Louisiana Legislative Auditor. These reports are to be issued within six months of the entity's fiscal year-end.
	Condition	The Louisiana Legislative Auditor required the District to perform an annual audit of the December 31, 1997, fiscal year. This audit should have been issued by June 30, 1998.
	Cause	Management of the District intended to have a biennial audit performed for the two years ended December 31, 1998 (due June 30, 1999). However, due to various legal and fiscal issues in 1998, the Louisiana Legislative Auditor required the annual audit of the December 31, 1997, fiscal year.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

110 MONUMENT PLACE • POST OFFICE BOX 821568 • VICKSBURG, MISSISSIPPI 39182-1568 • TELEPHONE (601) 636-4762 • FAX (601) 636-9476

email: infoline@maycpa.com • website: www.maycpa.com

Ebarb Waterworks District No. 1
Sabine Parish, LA

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Effect The District did not issue its financial statement within six months of its fiscal year-end.

Recommendation The District should issue its audited financial statements within six months of its fiscal year-end.

We recommend management address the foregoing issue as an improvement to operations and the administration of public programs. We are available to further explain the suggestions or help implement the recommendation.

May + Company

Vicksburg, Mississippi
March 26, 1999



UDS MANAGEMENT CORPORATION
FEDERAL · PUBLIC · PRIVATE
UTILITY SYSTEMS OPERATIONS

2800 NORTH SEVENTH STREET
WEST MONROE, LOUISIANA 71291
(318) 397-2835

State of Louisiana
Office of Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

March 25, 1999

Attn: Mrs. Joann Sanders

Re: Ebarb Waterworks District
Sabine Parish, Louisiana

Dear Mrs. Sanders:

Please accept this letter addressing the Management Letter issued by May & Company, dated March 29, 1999 regarding the Ebarb Waterworks District 1997 Audit. We spoke with you earlier addressing this item in our discussion. In summary of our discussion our response to the Management Letter is as follows:

Suggestion 97-1:

As required by law the District intended to have a biennial audit performed for the two (2) year period ended December 31, 1998, which would have been due on June 30, 1999. However, the Ebarb Waterworks District Board of Directors illegally canceled the contract for the operation and management of the District during 1998 creating serious legal and fiscal issues. Subsequent to the June 30, 1998 deadline for the issuance of the 1997 single year annual audit, and in response to a request by the U.S.- RDA State Office, the Louisiana Legislative Auditors Office required an annual audit of the entity as of the December 31, 1997 fiscal year.

It was not the intent of the "Old" Board Members to violate State Law which required the issuance of an audit in compliance with the requirements of the Legislative Auditors Office. The District is obliged to issue its audited financial statements within six (6) months of the fiscal year-end. However, the litigation which has resulted from the "New" Board Members illegal cancellation of the management contract has made the issuance of the 1997 audit difficult and will make the issuance of a 1998 audit very difficult, if not impossible.

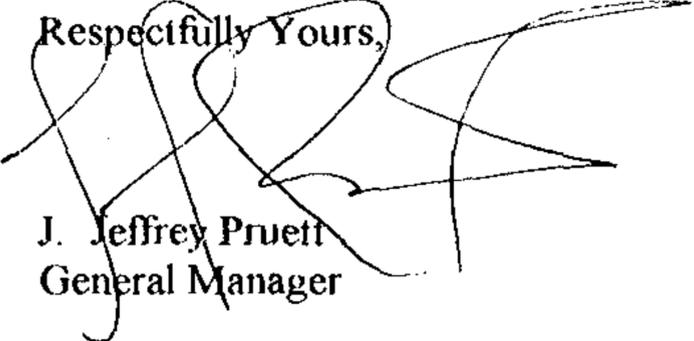
Management is hopeful that this litigation will be resolved so that the District will be able to issue its 1998 Audit on schedule as required by State Law.

Serving Systems in the Parishes of:

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As always, please contact me at our office at 1-800-346-7123 should you have any questions. On behalf of the Board Members and myself please accept our appreciation for your assistance in this matter. I remain with kindest and best regards.

Respectfully Yours,



J. Jeffrey Pruett
General Manager

cc: File