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Financial Statements

WATERWORKS DISTRICT NO. 2

For the Years Ended June 30, 1999 and 1998

Under provisions of state law, this report is a public document. A copy of the report is submitted to the elected, appointed, or reviewed, entity and, where appropriate, to 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 JAN 05 2000

EVERS & ASSOCIATES, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
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EVERS & ASSOCIATES, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

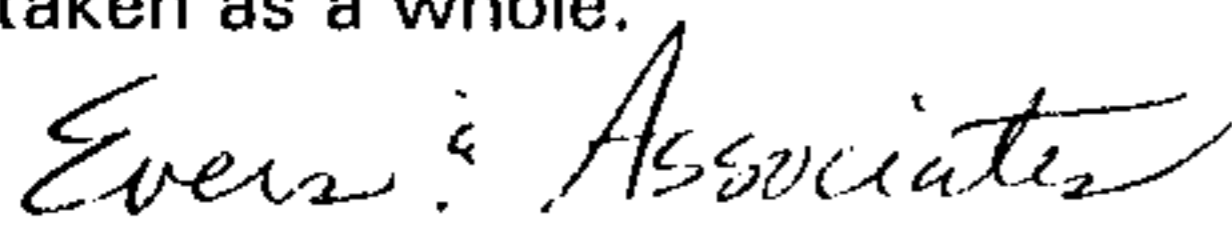
We have audited the accompanying general purpose financial statements of Waterworks District No. 2, Lincoln Parish, Louisiana (a component-unit of the Lincoln Parish Police Jury), as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. The general purpose financial statements of Waterworks District No. 2 as of June 30, 1998, were audited by other auditors whose report, dated November 5, 1998, expressed an unqualified opinion on those statements.

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 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. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 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 and contracts.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of 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 has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.


Evers & Associates, P.L.L.C.

November 5, 1999

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND
Balance Sheets
June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 13,041	\$ 10,673
Certificate of deposit - water system revenue fund	102,000	102,000
Accounts receivable	6,818	7,274
Unbilled revenue	790	1,020
Total Current Assets	<u>122,649</u>	<u>120,967</u>
RESTRICTED ASSETS		
Certificate of deposit - customer meter deposits	4,800	4,800
Certificate of deposit - capital expenditures	5,723	5,463
Total Restricted Assets	<u>10,523</u>	<u>10,263</u>
FIXED ASSETS		
Plant and equipment, at cost, net of accumulated depreciation	<u>30,715</u>	<u>29,005</u>
TOTAL ASSETS	<u>\$ 163,887</u>	<u>\$ 160,235</u>
 LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accrued water purchases	\$ 2,490	\$ 3,615
PAYABLE FROM RESTRICTED ASSETS		
Customer meter deposits	<u>4,705</u>	<u>4,245</u>
Total Liabilities	<u>7,195</u>	<u>7,860</u>
FUND EQUITY		
Contributed Capital		
Water system bond proceeds	39,500	39,500
Subdivider	<u>8,164</u>	<u>8,164</u>
Total Contributed Capital	<u>47,664</u>	<u>47,664</u>
Retained Earnings		
Reserved for capital expenditures	5,723	5,463
Unreserved	<u>103,305</u>	<u>99,248</u>
Total Retained Earnings	<u>109,028</u>	<u>104,711</u>
Total Fund Equity	<u>156,692</u>	<u>152,375</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 163,887</u>	<u>\$ 160,235</u>

The accompanying notes are an integral part of these financial statements.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
ENTERPRISE FUND

Statements of Revenue, Expenses and Changes in Retained Earnings
For the Years Ended June 30, 1999 and 1998

	1999	1998
OPERATING REVENUES		
Charges for Services		
<i>Water revenue</i>	\$ 53,300	\$ 51,437
Penalties	1,006	1,094
Tapping fees	4,051	579
	58,357	53,110
Total Operating Revenues		
Cost of Sales		
Water purchased	35,725	33,039
	22,632	20,071
Gross Profit		
OPERATING EXPENSES		
Water Department Expenses		
Depreciation	2,557	2,675
Electricity	109	129
Repairs and maintenance	1,473	2,989
	4,139	5,793
Total		
General & Administrative Expenses		
Accounting and audit	5,425	5,375
Bad debts	101	307
Insurance and bonds	2,634	1,922
Legal	0	450
Miscellaneous	195	458
Office supplies	1,007	329
Postage	665	466
Salary	7,200	7,100
Sales tax	514	601
Taxes on payroll	551	543
Telephone	756	531
Travel	796	690
	19,844	18,772
Total		
Total Operating Expenses	23,983	24,565
Operating Income (Loss)	(1,351)	(4,494)
OTHER INCOME (EXPENSE)		
Interest income	5,668	5,921
	4,317	1,427
Net Income		
Retained Earnings - Beginning of year	104,711	103,284
Retained Earnings - End of year	\$ 109,028	\$ 104,711

The accompanying notes are an integral part of these financial statements.

WATERWORKS DISTRICT NO. 2
 LINCOLN PARISH, LOUISIANA
 ENTERPRISE FUND
 Statements of Cash Flows
 For the Years Ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 4,317	\$ 1,427
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	2,557	2,675
(Increase)Decrease in accounts receivable	456	(2,287)
(Increase)Decrease in unbilled revenue	230	(315)
Increase(Decrease) in accrued water purchases	<u>(1,125)</u>	<u>1,585</u>
Net cash provided by operating activities	<u>6,435</u>	<u>3,085</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
<i>Increase(Decrease) in customer meter deposits</i>	<u>460</u>	<u>(235)</u>
Net cash provided (used) by non-capital financing activities	<u>460</u>	<u>(235)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	<u>(4,267)</u>	<u>0</u>
Net cash (used) by capital and related financing activities	<u>(4,267)</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) in certificates of deposit	<u>(260)</u>	<u>(261)</u>
Net Cash (Used) by Investing Activities	<u>(260)</u>	<u>(261)</u>
Net Increase in Cash	2,368	2,589
Cash at Beginning of Year	<u>10,673</u>	<u>8,084</u>
Cash at End of Year	<u>\$ 13,041</u>	<u>\$ 10,673</u>

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
Notes to Financial Statements
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Waterworks District No. 2, (the "District") pursuant to Louisiana revised Statute 33:3811, was created by Ordinance 300, dated July 13, 1965, adopted by the Lincoln Parish Police Jury. The District, which serves commercial and residential customers in and around Vienna, Louisiana, was completed and became revenue producing during the month of May, 1966.

The accompanying general purpose and individual fund financial statements of the District 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 District's 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 District's accounting policies are described below.

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.

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.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
Notes to Financial Statements
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 300, 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.

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. 2 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.

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
Notes to Financial Statements
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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

Depreciation on the proprietary fund amounted to \$2,557 and \$2,675 for the years ended June 30, 1999 and 1998, respectively.

All property, plant and equipment are recorded at historical cost with the exception of donated property, plant and equipment which are recorded at their estimated fair value of \$8,164 on the date donated.

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 at the time liabilities are incurred.

Budgets and Budgetary Accounting - Legal Compliance - Waterworks District No. 2 is not legally required to adopt a budget and has not done so. Encumbrance accounting is not used.

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 District. 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
June 30, 1999 and 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Equity - Reserves are recorded to indicate that a portion of the fund balance is legally segregated for a specific future use. The Reserved account, "for Capital Expenditures" is used to segregate a portion of fund balance for capital expenditures.

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.

NOTE 2 - RESTRICTED ASSETS - PROPRIETARY FUND TYPE

Certain assets of the District have been restricted for customer meter deposits and capital expenditures. These assets consist of short-term investments as follows:

<u>Certificates of Deposit</u>	<u>1999</u>	<u>1998</u>
Customer Meter Deposits	\$ <u>4,800</u>	\$ <u>4,800</u>
Capital Expenditures	\$ <u>5,723</u>	\$ <u>5,463</u>

NOTE 3 - CASH ON DEPOSIT

Cash and certificates of deposit are stated at cost, which approximates market value. 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, 1999, the District had \$130,656 in deposits (collected bank balances) which were adequately secured from risk by federal deposit insurance and pledged securities held by the custodial bank in the name of Waterworks District No. 2.

NOTE 4 - RECEIVABLES

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
June 30, 1999 and 1998

NOTE 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, 1999 and 1998, is presented below.

	1999	1998
Property and equipment additions	\$ (4,267)	\$ 0
Operating revenues	58,357	53,110
Depreciation	2,557	2,675
Operating loss	(1,351)	(4,494)
Net income	4,317	1,427
Net working capital	120,159	117,352
Total assets	163,887	160,235
Total Equity	156,692	152,375

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT - PROPRIETARY FUND

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

	1999	1998
Office Equipment	\$ 3,877	\$ 3,877
Buildings	3,870	3,870
Water Distribution System	82,726	78,460
Land	800	800
Totals	91,273	87,007
Accumulated Depreciation	(60,558)	(58,002)
Net	\$ 30,715	\$ 29,005

NOTE 7 - CONTRIBUTED CAPITAL - PROPRIETARY FUND

Contributed capital at June 30, 1999 and 1998, consisted of:

12-1-65 Public Improvement Bond proceeds used for construction of capital assets	\$ 39,500
Contribution from subdivider - water well and distribution lines	8,164
Total	\$ 47,664

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

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

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
Notes to Financial Statements
June 30, 1999 and 1998

NOTE 9 - WATER REVENUE

A summary of water sales to metered customers for the last two years is presented below:

	1999	1998
Sales to Customers	\$ 53,300	\$ 51,437
Number of Customers at June 30	188	175

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

<u>Description</u>	1999	1998
Gallons Sold	24,580,120	23,869,700
Gallons Purchased	32,005,424	28,397,072
Gallons Purchased in Excess of Sales	(7,425,304)	(4,527,372)

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

NOTE 10 - WATER CONTRACTS

Waterworks District No. 2 purchases its water from the City of Ruston. Purchases of water by Waterworks District No. 2 were \$36,850 and \$33,039 for the years ended June 30, 1999 and 1998, 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 Alderman, 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 Alderman of the City of Ruston, and the contract was 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)	\$ 9.50 per month
2,001 to 5,000 gallons	2.10 per 1,000 gallons
5,001 to 10,000 gallons	1.70 per 1,000 gallons
Over 10,000 gallons	1.30 per 1,000 gallons

WATERWORKS DISTRICT NO. 2
LINCOLN PARISH, LOUISIANA
Notes to Financial Statements
June 30, 1999 and 1998

NOTE 11 - CONTINGENT LIABILITIES

At June 30, 1999, there was no pending or contemplated litigation involving Waterworks District No. 2 which might involve contingent liabilities.

NOTE 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.

NOTE 13 - COMMISSIONERS COMPENSATION

No compensation was paid to any member of the Board of Commissioners during the year ended June 30, 1999. Board members who served during the current fiscal year are listed below.

<u>Commissioner</u>	<u>Compensation</u>
Walter Carpenter, Jr., President	None
Wayne Herren, Secretary/Treasurer	None
William R. Graham	None
James T. Hammond	None
Kenneth W. Henry	None
Darryl Johnson	None
Elaine 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, 1999

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Book Value</u>
ENTERPRISE FUND				
<u>Community Trust Bank</u>				
Certificate of Deposit - Water System Revenue Fund	5.10%	10/13/98	10/13/99	\$ 102,000
<u>Bank One</u>				
Certificate of Deposit - Capital Expenditures	4.55%	6/30/99	6/30/00	5,723
<u>Security First National Bank</u>				
Certificates of Deposits - Customer Meter Deposits	4.90%	3/31/99	3/31/00	4,800
Total Enterprise Fund				<u>\$ 112,523</u>

OTHER INDEPENDENT AUDITOR'S REPORT

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

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**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

We have audited the general purpose financial statements of Waterworks District No. 2, Lincoln Parish, Louisiana, as of and for the year ended June 30, 1999, and have issued our report thereon dated November 5, 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 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 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. However, we noted an immaterial instance of noncompliance, which we have reported to management of Waterworks District No. 2 in a separate letter dated November 5, 1999.

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 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, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 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. 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 consider the reportable condition described below to be a material weakness.

Reportable Condition

Finding

An adequate internal control structure requires proper segregation of duties. Waterworks District No. 2 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.



Evers & Associates, P.L.L.C.
November 5, 1999

EVERS & ASSOCIATES, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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November 5, 1999

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

Re: Management Letter

We have audited the financial statements of Waterworks District No. 2 (the "District") as of and for the year ended June 30, 1999, and have issued our report thereon dated November 5, 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 a part of our examination, we have issued our report on the financial statements, dated November 5, 1999, and our report on internal control and compliance with laws, regulations, and contracts, dated November 5, 1999.

During the course of our examination, we became aware of the following matter which represents an immaterial deviation of compliance and suggestion for improved internal control.

Monitoring of Pledged Securities

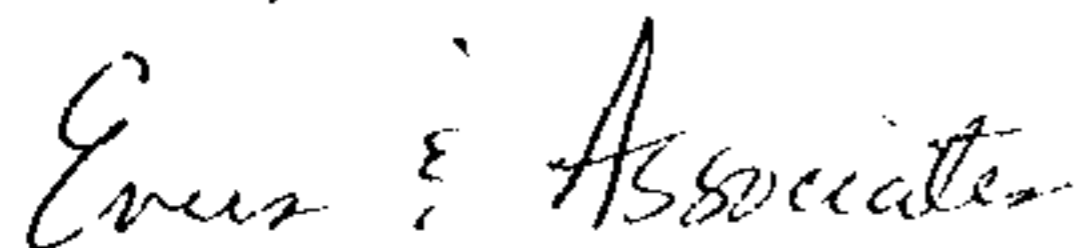
Observation - Under state law, the bank balance of deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. During the fiscal year, the primary financial institution used by the District was changed from Iberia Bank to Community Trust Bank. This resulted in deposits in excess of \$100,000 (the maximum insured by the Federal Deposit Insurance Corporation) at Community Trust Bank, which were not covered by pledged securities until several months after the accounts were established. The situation was rectified prior to the end of the fiscal year.

Recommendation - The District should institute procedures to monitor the amount of securities pledged by any financial institution which holds deposits in excess of \$100,000. Alternatively, the District could consider a policy to limit the amounts on deposit at any one financial institution to less than \$100,000 at any point in time.

Management's Corrective Action Plan - The District will adopt a policy requiring the president of the Board of Commissioners, or his appointed designee, to obtain a schedule of pledged securities from financial institutions which hold deposits in excess of \$100,000. This schedule will be obtained and reviewed on a quarterly basis or more frequently if the need arises.

We would be pleased to discuss these comments and suggestions with you in further detail at your convenience or to assist you in implementing the recommendations if you so desire.

Sincerely,

A handwritten signature in cursive script that reads "Evers & Associates".

Evers & Associates, P.L.L.C.