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**WATERWORKS DISTRICT NO. 2
OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 1998**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, 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 10 1999

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
TABLE OF CONTENTS
DECEMBER 31, 1998

	<u>EXHIBIT</u>	<u>SCHEDULE</u>	<u>PAGE</u>
Independent Auditors' Report	-	-	1
General Purpose Financial Statements	-	-	2
Comparative Balance Sheet - All Fund Types	A	-	3
Comparative Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type	B	-	4
Comparative Statement of Cash Flows - Proprietary Fund Type	C	-	6
Notes to the Financial Statements	-	-	7
Other Supplementary Information	-	-	15
Comparative Schedule of Compensation of Commissioners	-	1	16
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standard</u>	-	-	17
Summary Schedule of Prior Audit Findings	-	2	18
Corrective Action Plan For Current Year Audit Findings	-	3	19

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INDEPENDENT AUDITORS' REPORT

President and Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the accompanying general purpose financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Waterworks District No. 2 of Natchitoches Parish. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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 the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of December 31, 1998, 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 a report dated February 15, 1999, on our consideration of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, taken as a whole. The accompanying supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose 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.

The financial information for the year ended December 31, 1997, which is included for comparative purposes was taken from the financial report for that year in which we expressed an unqualified opinion dated February 27, 1998, on the general purpose financial statements of the Waterworks District No. 2 of Natchitoches Parish.

Hines, Jackson & Hines
Certified Public Accountants
February 15, 1999

GENERAL PURPOSE FINANCIAL STATEMENTS

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
COMPARATIVE BALANCE SHEET - ALL FUND TYPES
DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
ASSETS		
Cash and cash equivalents	\$ 38,921	\$ 39,666
Investments	100,000	100,000
Accounts Receivable	35,732	35,443
Prepaid expenses	2,874	3,424
Deposits	985	985
Restricted assets		
Cash and cash equivalents	84,654	76,963
Investments	95,000	95,000
Property, plant and equipment, net of accumulated depreciation	<u>1,098,388</u>	<u>1,115,620</u>
Total Assets	<u>\$ 1,456,554</u>	<u>\$ 1,467,101</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 9,905	\$ 10,183
Obligation under capital lease	25,447	34,797
Revenue bonds payable	406,853	449,448
Customers' refundable meter deposits	<u>67,185</u>	<u>63,709</u>
Total Liabilities	509,390	558,137
Fund Equity		
Contributed capital	465,000	465,000
Retained earnings		
Reserved for capital additions and FIAA depreciation and contingency	34,803	31,346
Unreserved	<u>447,361</u>	<u>412,618</u>
Total Retained Earnings	<u>482,164</u>	<u>443,964</u>
Total Fund Equity	<u>947,164</u>	<u>908,964</u>
Total Liabilities and Fund Equity	<u>\$ 1,456,554</u>	<u>\$ 1,467,101</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHEES PARISH
NATCHEZ, LOUISIANA
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPE
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<i>Operating revenues</i>		
Charges for services		
Water sales	\$ 361,193	\$ 344,134
Delinquent charges	9,903	9,683
Meter connection and re-connection fees	19,004	10,715
Miscellaneous income	<u>1,205</u>	<u>830</u>
<i>Total Operating Revenues</i>	391,305	365,362
<i>Operating expenses</i>		
Automotive equipment-fuel and lubrication	5,106	4,986
Automotive equipment-maintenance and repairs	2,740	2,980
Billing expense	1,477	575
Board members - per diem	6,000	5,340
Chemicals	19,281	16,830
Depreciation	57,206	53,902
Employer's contribution to group insurance	17,795	14,126
Employer's payroll taxes	8,997	8,654
Insurance	19,006	16,515
Legal and professional	7,249	7,249
Loss on sale of asset	1,264	0
Maintenance - equipment repairs	11,285	8,548
Maintenance - materials and supplies	19,660	19,519
Maintenance - salaries	57,126	44,193
Miscellaneous	3,811	2,453
Office supplies	682	1,746
Pest control	174	168
Postage and express	4,573	4,552
Salaries - supervisor and clerical	52,793	47,063
Telephone	4,788	4,414
Utilities	<u>36,018</u>	<u>36,508</u>
<i>Total Operating Expenses</i>	<u>337,031</u>	<u>300,321</u>
<i>Operating Income</i>	54,274	65,041
<i>Nonoperating revenues/(expenses)</i>		
Interest income	12,379	13,341
Interest expense	(27,566)	(30,396)
Paying agent's fees	<u>\$ (887)</u>	<u>\$ (1,573)</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPE (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Total Nonoperating Revenues/(Expenses)	\$ (16,074)	\$ (18,628)
Net Income	38,200	46,413
(Increase)/decrease in retained earnings - reserved for capital additions and contingency	(1,193)	(1,235)
(Increase)/decrease in retained earnings - reserved for FHA depreciation and contingency fund	<u>(2,264)</u>	<u>(2,242)</u>
Net change in unreserved retained earnings	34,743	42,936
RETAINED EARNINGS-Unreserved, Beginning of year	<u>412,618</u>	<u>369,682</u>
RETAINED EARNINGS-Unreserved, End of year	<u>\$ 447,361</u>	<u>\$ 412,618</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
COMPARATIVE STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 38,200	\$ 46,413
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation	57,206	53,902
Loss on disposition of assets	1,264	0
(Increase)/decrease in operating assets		
Accounts receivable	(289)	(80)
Prepaid expenses	550	(554)
Increase/(decrease) in operating liabilities		
Accounts payable	(278)	261
Customer meter deposits	<u>3,476</u>	<u>1,932</u>
Net Cash Provided By/(Used In) Operating Activities	100,129	101,874
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal repayment - revenue bonds	(42,595)	(40,441)
Principal repayment - installment loans	0	(485)
Principal repayment - lease obligations	(9,350)	(9,122)
Purchase of capital assets	<u>(41,238)</u>	<u>(32,871)</u>
Net Cash Provided By/(Used In) Capital and Related Financing Activities	<u>(93,183)</u>	<u>(82,919)</u>
Net Increase in Cash	6,946	18,955
CASH AND CASH EQUIVALENTS, Beginning of year	<u>311,629</u>	<u>292,674</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 318,575</u>	<u>\$ 311,629</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Waterworks District No. 2 of Natchitoches Parish was created by an ordinance of the Natchitoches Parish Police Jury on April 10, 1963. The District is a political subdivision of the Natchitoches Parish Police Jury, whose jurors are elected officials. The District Commissioners are appointed by the Natchitoches Parish Police Jury.

The accounting and reporting policies of the Waterworks District No. 2 of Natchitoches Parish conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements set forth in the Louisiana Governmental Audit Guide and to Louisiana Revised Statutes 24:517, and to the industry audit guide, Audits of State and Local Governmental Units.

A. Financial Reporting Entity

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

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

1. Appointing a voting majority of an organization's governing body, and
 - 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 burdens on the police jury.
2. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

The District Commissioners are appointed by the Natchitoches Parish Police Jury. Also, because of the nature and significance of the service provided by the District, the financial statements of the reporting entity would be misleading if the District were excluded. Therefore, the Waterworks District No. 2 of Natchitoches Parish was determined to be a component unit of the Natchitoches 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 government unit, or the other governmental units that comprise the financial reporting entity.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. The District now consist of only one generic fund type and one broad fund category as follows:

Proprietary Fund Type - Proprietary funds account for activities similar to those found in the private sector, where the determination of net income is necessary for sound financial administration. Proprietary funds differ from governmental funds in that their focus is on income measurement, which, together with the maintenance of equity is an important financial indicator. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board *pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.*

Enterprise Fund - The enterprise fund is used to account for operations a) 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 goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided the periodic determination of revenue earned, expenses incurred, and/or c) net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

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.

The enterprise fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. 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 purchase of various operating supplies are regarded as expenditures at the time purchased.

D. Cash and Cash Equivalents

Consistent with GASB 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", the District defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents (Continued)

Cash equivalents - short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

E. Accumulated unpaid vacation

All full time employees of the District are entitled to one week of vacation each year. This vacation time may not be carried over to the following year and does not vest or accumulate. Therefore, the District had no liability with respect to accumulated unpaid vacation at December 31, 1998.

F. Receivables

All receivables are reported at their gross value and, where applicable, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the enterprise fund are recognized at the end of each year on a pro rata basis. The estimated amount is based on billings during the month following the close of the year.

G. Bad debts

Uncollectible amounts are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. At December 31, 1998, \$0 were considered to be uncollectible.

II. Prepaid items

Payments to vendors for services that will benefit periods beyond December 31, 1998, are recorded as prepaid items.

I. Fixed Assets

The proprietary fund is accounted for on a cost of service or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or noncurrent) associated with its activities are included on its balance sheet.

Depreciation of all exhaustible fixed assets used by the District is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs and minor renewals are charged to earnings as incurred. Major expenditures for renewals and betterments are capitalized. The estimated useful lives are as follows:

Water System	
Building	10 - 40 years
Furniture and equipment	3 - 25 years
Water distribution system	20 - 50 years

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHÉS PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets

The Enterprise Fund, based upon certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only to service outstanding debt. These assets consist of cash money market accounts.

K. Fund equity

Unreserved retained earnings for the proprietary fund represents the net assets available for future operations or distribution. Reserved retained earnings for the proprietary fund represents the net assets that have been legally identified for specific purposes. Contributed capital is recorded in the Enterprise Fund for capital grants restricted for the acquisition or construction of capital assets. Contributed capital is not amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources.

L. Comparative data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain amounts from prior year financial statements have been reclassified to conform with current classifications.

M. Estimates

The presentation 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.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Louisiana Revised Statutes authorizes the District to invest in United States bonds, treasury notes or certificates, or to deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. They are classified as *investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents.* Investments are stated at cost.

At December 31, 1998, the District had cash and cash equivalents and time deposits totaling, \$123,575 as follows:

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Petty cash	\$	400
Demand deposit accounts		14,251
Interest bearing accounts		<u>108,924</u>
Total	\$	<u>123,575</u>

Waterworks District #2 of Natchitoches Parish had investments totaling \$195,000 as of December 31, 1998. These investments consisted of \$195,000 in certificates of deposit.

Under state law, these deposits 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 bank. As of December 31, 1998, the District had \$321,644 in bank deposits. These deposits were secured from risk by \$ 321,644 of federal deposit insurance (GASB Category 1).

NOTE 3 RESTRICTED ASSETS

At December 31, 1998, the District had the following restricted assets:

Capital additions and contingencies fund	\$	14,485
Customer's refundable meter deposits		67,527
Revenue bond reserve fund		41,122
Revenue bond sinking fund		8,292
FHA Revenue bond and interest sinking fund		2,910
FHA Revenue bond reserve fund		25,000
FHA Depreciation and contingency fund		<u>20,318</u>
Total	\$	<u>179,654</u>

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment at December 31, 1998:

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Current Year Depreciation</u>
Land		\$ 1,006	\$ 0	\$ 1,006	\$ 0
Building	10 - 40	56,052	(8,481)	47,571	2,858
Furniture and equipment	3 - 25	158,055	(97,612)	60,443	14,257
Water distribution system	20 - 50	<u>1,759,110</u>	<u>(769,742)</u>	<u>989,368</u>	<u>40,091</u>
Totals		<u>\$ 1,974,223</u>	<u>\$ (875,835)</u>	<u>\$ 1,098,388</u>	<u>\$ 57,206</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Changes during the year			
Balance, beginning of year	\$ 1,961,992	\$ (846,372)	\$ 1,115,620
Additions			
Building	940	0	940
Furniture and equipment	22,928	0	22,928
Water distribution system	17,370	0	17,370
Deletions	(29,007)	27,743	(1,264)
Depreciation	0	(57,206)	(57,206)
Balance, end of year	<u>\$ 1,974,223</u>	<u>\$ (875,835)</u>	<u>\$ 1,098,388</u>

NOTE 5 OBLIGATIONS UNDER CAPITAL LEASE

The Waterworks District is obligated under a capital lease agreement for the acquisition of a trencher. On March 2, 1997, the District entered a lease agreement for a trencher. The agreement provides for sixty (60) monthly payments of \$723.22. At the maturity of the lease term, the District may purchase the trencher for one (1) dollar. The related payment obligations are recorded as current and long-term debt obligations in the Enterprise fund.

The Waterworks District is obligated under a capital lease agreement for the acquisition of an office building. On January 12, 1994, the District entered a lease agreement for an office building. The agreement provides for one hundred and twenty (120) monthly payments of \$330.35. At the maturity of the lease term, the District may purchase the office building for one (1) dollar.

In accordance with FASB-13, the District accounts for these leases as capital lease transactions. The cost of the trencher, \$36,754, is included in the equipment account and the cost of the office building, \$25,000 is included in the office building account in the enterprise fund. The assets are being depreciated over their estimated useful lives. The related payment obligations are recorded as current and long-term debt obligations in the enterprise fund.

The following is a schedule of future minimum lease payments as of December 31, 1998:

<u>Year Ending December 31</u>	<u>Trencher</u>	<u>Office Building</u>	<u>Total</u>
1999	\$ 8,679	\$ 3,964	\$ 12,643
2000	1,446	3,964	5,410
2001	0	3,964	3,964
2002	0	3,964	3,964
2003	0	3,964	3,964
Total minimum lease payments	10,125	19,820	29,945
Less amount representing interest:			
Equipment - 6.98% rate	(428)	0	(428)
Office Building - 10% rate	0	(4,070)	(4,070)
Present value of minimum lease payments	<u>\$ 9,697</u>	<u>\$ 15,750</u>	<u>\$ 25,447</u>

The Waterworks District was not obligated under any operating leases at December 31, 1998.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 6 LONG TERM-DEBT

The following is a summary of debt transactions of the District for the year ended December 31, 1998:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Revenue Bonds - 1979	5%	2004	\$ 249,000	\$ 95,000
Revenue Bonds - 1987	5.75%	2026	<u>350,000</u>	<u>311,853</u>
Total			<u>\$ 599,000</u>	<u>\$ 406,853</u>

The annual requirements to amortize all debt outstanding as of December 31, 1998, including interest payments are as follows:

<u>Year Ending December 31</u>	<u>Revenue Bond 1979</u>	<u>Revenue Bond 1987</u>	<u>Total</u>
1999	\$ 18,750	\$ 22,691	\$ 41,441
2000	19,050	22,691	41,741
2001	18,300	22,691	40,991
2002	18,550	22,691	41,241
2003	18,750	22,691	41,441
Thereafter	<u>18,900</u>	<u>499,191</u>	<u>518,091</u>
Total	<u>\$ 112,300</u>	<u>\$ 612,646</u>	<u>\$ 724,946</u>

NOTE 7 FLOW OF FUNDS; RESTRICTION ON USE

Under the terms of the bond indenture on outstanding Waterworks Revenue Bonds dated 1979 and 1987, all income and revenues (hereafter referred to as revenue) of every nature, earned or derived from operation of the Waterworks System are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

- a) The establishment and maintenance of a "Waterworks Reserve Bond and Interest Sinking Fund" sufficient in amount to pay promptly and fully the principal of and the interest on the Bonds herein authorized and on the Outstanding Parity Bonds as said Bonds severally become due and payable by transferring from said Waterworks System Fund to the regularly designated fiscal agent of the Borrower, monthly in advance on or before the 20th day of each month of each year a sum equal to one-twelfth (1/12) of the total amount of principal and interest falling due in the ensuing year, together with such additional proportionate sum as may be required to pay said principal and interest as the same respectively become due.
- b) The establishment and maintenance of a "Waterworks Reserve Fund" by transferring from said Waterworks System Fund to the regularly designated fiscal agent bank of the Borrower, monthly in advance on or before the 20th day of each month of each year, beginning with the first month after completion of the improvements to the System, a sum at least equal to five per cent (5%) of the amount to be paid into the aforesaid Sinking Fund provided for in paragraph (a) above, the payments into said Reserve Fund a sum equal to the highest combined principal and interest falling due in any year on the Bonds and the Outstanding Parity Bonds, as a Debt Service Reserve, the money in said Reserve Fund is to be retained solely for the purpose of paying the principal of and interest on bonds payable from the said Sinking Fund as to which there would otherwise be default.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998

NOTE 7 FLOW OF FUNDS; RESTRICTION ON USE (CONTINUED)

- c) The establishment and maintenance of a "Waterworks Depreciation & Contingency Fund" by transferring from said Waterworks System Fund to the regularly designated fiscal agent bank of the Borrower, monthly in advance on or before the 20th day of each month of each year commencing with the month following completion of the improvements to the System, the sum of One Hundred Eighty-Five dollars (\$185.00) per month. Moneys in the Waterworks Depreciation and Contingency Fund shall also be used to pay the principal of and the interest on any bonds herein authorized for the payment of which there is not sufficient money in the Sinking or Reserve Funds, but if so used, such money shall be replaced by the Borrower as soon as possible thereafter, out of the earnings of the System after making the required payments into the respective funds hereinabove set out.

Subject to the foregoing, which are cumulative, the balance of the excess funds on deposit in the Waterworks System Fund may be used by the Borrower for the purpose of calling and/or paying bonds or for such other lawful corporate purposes as the Governing Authority of the Borrower may determine.

All or any part of the moneys on reserve in any of the aforesaid funds shall, at the written request of the Borrower, be invested in direct obligations of the United States of America or other obligations permitted by Louisiana law, maturing in five (5) years or less, in which event all income derived from such investments shall be added to the Sinking Fund, and such investments shall, to the extent at any time necessary, be liquidated and the proceeds thereof applied to the purposes for which said respective funds are herein created.

NOTE 8 PENDING LITIGATION

According to the District's legal counsel, there was no outstanding defensive litigation pending against Waterworks District #2 of Natchitoches Parish at December 31, 1998.

NOTE 9 RISK MANAGEMENT

Waterworks District #2 of Natchitoches Parish is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 RETIREMENT COMMITMENTS

All employees of Waterworks District #2 of Natchitoches Parish are covered by the Social Security System. Employees contribute 6.20% of their total salary to the System, while the District contributes a like amount. For the year ended December 31, 1998, total contributions to the system were \$16,818, of which the District contributed \$8,409 and employees contributed \$8,409. Total payroll for the year ended December 31, 1998 was \$109,919 and total payroll covered by the system was \$109,919. Any future deficit in this system will be financed by the United States Government. The District has no further liability to the system for the year ended December 31, 1998.

OTHER SUPPLEMENTARY INFORMATION

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
COMPARATIVE SCHEDULE OF COMPENSATION OF COMMISSIONERS
YEARS ENDED DECEMBER 31, 1998 AND 1997

<u>Board Member</u>	<u>Per Diem Compensation</u>			
	<u>1998</u>		<u>1997</u>	
	<u>Meetings</u>	<u>Amount</u>	<u>Meetings</u>	<u>Amount</u>
Willic Charles	0	\$ 0	4	\$ 240
John T. Batten, Jr.	12	720	10	600
Clyde Masson	15	900	12	720
Leon Hamilton	0	0	4	240
Richard Williamson	13	780	11	660
Kenneth Prudhomme	7	420	11	660
Emile Metoyer	14	840	10	600
Norman Rachal	15	900	11	660
James L. Johnson	11	660	8	480
Donald D. Forest	13	<u>780</u>	8	<u>480</u>
Total		<u>\$ 6,000</u>		<u>\$ 5,340</u>

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JAY H. SHEFFIELD, CPA

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

President and Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the general purpose financial statements of Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 1998, and have issued our report thereon dated February 15, 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 the Waterworks District No.2's 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 statements 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 the 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 financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the management of the Waterworks District No.2 of Natchitoches Parish and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Hines, Jackson & Hines

Natchitoches, Louisiana
February 15, 1999

WATERWORKS DISTRICT NO.2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED
DECEMBER 31, 1998

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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Nothing came to our attention that would require disclosure under Government Auditing Standards.

WATERWORKS DISTRICT NO.2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED
DECEMBER 31, 1998

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Correct Action Planned</u>	<u>Name(s) of Contact Person(s)</u>	<u>Anticipated Completion Date</u>
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Nothing came to our attention that would require disclosure under Government Auditing Standards.