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**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA**

**ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 1999**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 19 2000

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**Washington Parish Council
Franklinton, Louisiana**

General Purpose Financial Statements
As of and for the Year Ended December 31, 1999
With Supplemental Schedules

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**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**Washington Parish Council
Franklinton, Louisiana**

*General Purpose Financial Statements
As of and for the Year Ended December 31, 1999
With Supplemental Schedules*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying general purpose financial statements of the Mount Hermon Water District of the Parish of Washington, Louisiana, a component unit of the Washington Parish Council, as of December 31, 1999, and for the year then ended, 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.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. 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 Mount Hermon Water District of the Parish of Washington, Louisiana, as of December 31, 1999, and the results of its operations and cash flows 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 March 6, 2000, on our consideration of the Mount Hermon Water District of the Parish of Washington, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed on the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Mount Hermon Water District of the Parish of Washington, Louisiana. 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.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

March 6, 2000

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

STATEMENT A

**BALANCE SHEET - PROPRIETARY FUND TYPE
December 31, 1999**

Assets	
Current Assets:	
Cash	\$ 2,180
Accounts Receivable, Net	4,935
Accrued Billings	4,111
Total Current Assets	<u>11,226</u>
Restricted Assets:	
Cash - RUS Depreciation & Contingency Fund	8,098
Cash - RUS Bond Reserve Fund	12,008
Total Restricted Assets	<u>20,106</u>
Property, Plant and Equipment:	
Land	3,890
Water System	1,603,212
Total Property, Plant and Equipment	<u>1,607,102</u>
Less: Accumulated Depreciation	
Net Property, Plant and Equipment	<u>(112,883)</u>
Total Assets	<u>1,494,219</u>
Other Assets:	
Utility Deposits	220
Total Other Assets	<u>220</u>
Total Assets	<u>\$ 1,525,771</u>
 Liabilities and Fund Equity	
Liabilities:	
<i>Current Liabilities (Payable From Current Assets):</i>	
Accounts Payable	\$ 2,908
Sales Tax Payable	184
Total Current Liabilities (Payable From Current Assets)	<u>3,092</u>
<i>Current Liabilities (Payable From Restricted Assets):</i>	
Customer Deposits Payable	2,065
Current RUS Bond Payable	7,762
Accrued RUS Bond Interest	2,321
Total Current Liabilities (Payable From Restricted Assets)	<u>12,148</u>

Continued on the following page
The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

STATEMENT A

BALANCE SHEET - PROPRIETARY FUND TYPE

(Continued)

December 31, 1999

Long-Term Liabilities:	
RUS Bonds Payable	\$ <u>729,038</u>
Total Long-Term Liabilities	<u>729,038</u>
Total Liabilities	<u>744,278</u>
Fund Equity:	
Contributed Capital	897,287
Less: Accumulated Amortization	<u>(60,359)</u>
Net Contributed Capital	<u>836,928</u>
Retained Earnings:	
Reserved for RUS Bond Depreciation and Contingency	8,098
Reserved for RUS Bond Reserve Fund	12,008
Unreserved - (Deficit)	<u>(75,541)</u>
Total Retained Earnings (Deficit)	<u>(55,435)</u>
Total Fund Equity	<u>781,493</u>
Total Liabilities and Fund Equity	<u>\$ 1,525,771</u>

(Concluded)

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

STATEMENT B

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN UNRESERVED
RETAINED EARNINGS - PROPRIETARY FUND TYPE**
Year Ended December 31, 1999

Operating Revenues	
Water Sales	\$ 78,249
Installation Fees	3,610
Penalties	1,609
Interest Income	374
Miscellaneous Revenue	280
Total Operating Revenues	<u>84,122</u>
Operating Expenses	
Operations and Maintenance - Contract	26,024
Office Expenses	26
Utilities	3,794
Insurance	2,103
Accounting	2,858
Conventions and Seminars	64
Bank Charges	76
Membership Dues	25
Depreciation Expense	40,080
Total Operating Expense	<u>75,050</u>
Net Operating Income (Loss)	<u>9,072</u>
Non-Operating Revenue (Expenses):	
Interest Expense	<u>(37,036)</u>
Total Non-Operating Revenue (Expenses)	<u>(37,036)</u>
Net Income (Loss)	(27,964)
Amortization of Contributed Capital	21,303
Decrease in Reserve for Contingencies	(891)
(Deficit) Retained Earnings-Unreserved	
January 1, 1999	<u>(67,989)</u>
(Deficit) Retained Earnings-Unreserved December 31, 1999	<u>\$ (75,541)</u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
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Washington Parish Council
Franklinton, Louisiana**

STATEMENT C

**STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE
Year Ended December 31, 1999**

<i>Cash Flows from Operating Activities:</i>	
Operating Income (Loss)	\$ <u>9,072</u>
Adjustments to Reconcile Net Operating Income to Net Cash	
<i>Provided by Operating Activities:</i>	
Depreciation	40,080
Changes in Accounts Receivable	(934)
Changes in Accrued Billings	(655)
Changes in Accounts Payable	(27)
Changes in Sales Tax Payable	42
Changes in Customer Deposits Payable	800
Changes in Accrued RUS Bond Interest	<u>(2,883)</u>
Total Adjustments	<u>36,423</u>
Net Cash Provided by (Used For) Operating Activities	<u>45,495</u>
 <i>Cash Flows from Capital and Related Financing Activities:</i>	
Bond Principal Repayment - RUS Bond	(8,209)
Interest Payments - RUS Bond	<u>(37,036)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(45,245)</u>
Net Cash Increase (Decrease) for Year	250
 <i>Cash at Beginning of Year</i>	 <u>22,036</u>
 <i>Cash at End of Year</i>	 <u>\$ <u>22,286</u></u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 1999

INTRODUCTION

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a 5-member governing board of commissioners appointed by the *Washington Parish Council*.

Mount Hermon Water District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 1999, serves 276 water customers. The district contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying general purpose financial statements of the Mount Hermon Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

The district is a component unit of the Washington Parish Council, the financial reporting entity. The council is financially accountable for the district because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the district and do not present *information on the council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.*

C. FUND ACCOUNTING

The Mount Hermon Water District of the Parish of Washington, Louisiana is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprise its assets, liabilities, fund equity,

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
(Continued)

As of and for the Year Ended December 31, 1999

revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

Fees for water services are recorded as revenues after the meters are read. All other revenues are recorded when the service has been provided.

Expenditures

All operating expenses, except depreciation, are recorded when they are incurred. Depreciation is recorded each month over the life of the asset.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district may 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.

Under state law, the district may invest in United States bonds, treasury notes, or certificates. These are classified as investments if the original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments, if any, are stated at fair value.

F. INVENTORIES

Purchase of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 1999

G. PREPAID ITEMS

Purchase of items regarded as having a future economical use are expensed when purchased, and prepaid amounts for such items are not recorded as assets at the close of the fiscal year.

H. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

I. FIXED ASSETS

Fixed assets of the district are included on the balance sheet of the fund. Interest costs incurred during construction are capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of 20 to 40 years for water systems and 5 to 10 years for equipment.

J. COMPENSATED ABSENCES

At December 31, 1999, the district did not have employees that accumulate or vest benefits.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. FUND EQUITY

Contributed Capital

Grants, entitlements, or shared revenues received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions. This amortization is closed to the contributed capital account.

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 1999

M. USE OF ESTIMATES

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 reported period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 1999, the district has cash and cash equivalents (book balances) totaling \$22,286, in Demand Deposits at one bank.

These deposits 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 December 31, 1999, the district had \$25,169 in collected bank balances, protected by \$100,000 of federal deposit insurance.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

3. RECEIVABLES

All customer receivables are reported at gross value and periodically reduced by the portion that is expected to be uncollectible. The board of commissioners of the Mount Hermon Water District review past due accounts and authorize the write-off of uncollectible amounts directly against the accounts receivable account. At fiscal year-end, the district had not established an allowance for uncollectible accounts, since the amount of uncollectible accounts at December 31, 1999, was determined to be immaterial. In addition, an aging of accounts was not available at fiscal year end, although the past due accounts receivable amount was reported as follows:

Current	\$ 4,505
Past Due	430
Total	\$ 4,935

**MOUNT HERMON WATER DISTRICT
OF THE
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Notes to the Financial Statements
(Continued)

As of and for the Year Ended December 31, 1999

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following close of the fiscal year. At December 31, 1999, Mount Hermon Water District recorded accrued billings of \$4,111.

4. FIXED ASSETS

A summary of fixed assets at December 31, 1999, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Land	-	\$ 3,890	\$ -	\$ 3,890	\$ -
Water System	40	1,603,212	112,883	1,490,329	40,080
Totals		<u>\$1,607,102</u>	<u>\$ 112,883</u>	<u>\$ 1,494,219</u>	<u>\$ 40,080</u>

The water system, financed under the United States Department of Agriculture, Rural Utilities Service Loan/Grant program, became operational in March of 1997. Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 40 years. All assets are depreciated by the straight-line method. Total depreciation expense of \$40,080 was recorded for the fiscal year ending December 31, 1999.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 1999

5. LONG-TERM DEBT

The following is a summary of bond transactions of the Mount Hermon Water District of the Parish of Washington, Louisiana for the year ended December 31, 1999:

	<u>1996 RUS Water Revenue Bonds \$754,000</u>
Bonds Payable January 1, 1999	\$ 745,009
Bonds Retired	<u>(8,209)</u>
Bonds Payable December 31, 1999	<u>\$ 736,800</u>

Bonds Payable at December 31, 1999, are comprised of the following current and long-term amounts:

	<u>Current Amount 12/31/99</u>	<u>Long-Term Amount 12/31/99</u>	<u>Total Principal Balance 12/31/99</u>
1996 Revenue Bonds: \$754,000 utility bonds, dated 2/08/96; due in monthly installments of \$3,702 through Feb. 6, 2036; interest at 5.0%	<u>\$ 7,762</u>	<u>\$ 729,038</u>	<u>\$ 736,800</u>

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 1999

The annual requirements to amortize all debt outstanding as of December 31, 1999, including interest payments of \$869,868 are as follows:

Year Ending December 31,	1996 RUS Water Revenue Bonds \$754,000
2000	\$ 44,424
2001	44,424
2002	44,424
2003	44,424
2004	44,424
2005-2009	222,120
2010-2014	222,120
2015-2019	222,120
2020-2024	222,120
2025-2029	222,120
2030-2034	222,120
2035-2036	51,828
	\$ 1,606,668

6. FLOW OF FUNDS, RESTRICTIONS ON USE

As of December 31, 1999, the Mount Hermon Water District of the Parish of Washington, State of Louisiana, has one Rural Utilities Service (RUS) Revenue Bond. The total bond amount of \$754,000 was issued February 8, 1996, at an interest rate of 5.0%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, the Mount Hermon Water District of the Parish of Washington, State of Louisiana, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, *and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.*

**MOUNT HERMON WATER DISTRICT
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Franklinton, Louisiana**

*Notes to the Financial Statements
(Continued)*

As of and for the Year Ended December 31, 1999

For the fiscal year ending December 31, 1999, the bond debt coverage factor was 109%, as compared to 81% for the fiscal year ending December 31, 1998, but is below the percentage required by bond covenants.

- b) The establishment and maintenance of a "Water Bond and Interest Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The actual creation of a sinking fund was not required since the district pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 1999, Mount Hermon Water District had made the required monthly installments.

- c) The establishment of the "Water Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Water Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 1999, per the RUS Letter of Conditions, was a total of \$185 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1996 Revenue Bonds became revenue producing during March, 1997.

The district made all of the required deposits to the Reserve Fund, maintaining a balance of \$12,008, at December 31, 1999.

- d) The establishment and maintenance of the "Water Depreciation and Contingency Fund" (the Contingency Fund) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Water Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

The district made all of the required deposits to the Depreciation and Contingency Fund, maintaining a balance of \$8,098 at December 31, 1999. During the fiscal year ending December 31, 1999, there was one withdrawal of \$4,000 from the *Depreciation and Contingency Fund for debt service payment, as authorized by the Rural Utilities Service.*

- e) The district, in the original bond resolution also obligated itself to abide by the following covenants:
1. The district will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
 2. A penalty of 10% will be charged on all delinquent accounts, and interest at a reasonable rate as

**MOUNT HERMON WATER DISTRICT
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Notes to the Financial Statements
(Continued)

As of and for the Year Ended December 31, 1999

- established by the district, as well as payment of a reasonable reconnect charge for the resumption of services.
3. The district agrees to maintain the System in first class repair and working order and condition.
 4. The district will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
 5. The district will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.
 6. The district will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the district may dispose of property that in its judgement is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
 7. The district will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefor.
 8. That, to the extent permitted by law, the district will not grant a franchise to any utility for operation within the boundaries of the district.
 9. In operation of the System, the district will require all officers and employees in a position of authority or *in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.*

The current rate schedule, the schedule of insurance coverages (Item # 4) and fidelity bond coverages (Item # 9) are disclosed in the "Supplemental Information" schedules included as a part of this audit report. Non-compliance was not noted in the review of the remaining bond covenants.

7. FUND EQUITY

Reserved Retained Earnings is created in conjunction with the issuance of revenue bonds and is funded by transfers from the revenue account, based on assets held by the water district that are restricted for bond payments. The purpose of the reserved retained earnings is to service the revenue bonds. Reserved Retained Earnings totaled \$20,106 at December 31, 1999.

8. DEFICIT UNRESERVED RETAINED EARNINGS

The water district has an unreserved retained earnings deficit of \$(75,541) for the fiscal year ending December 31, 1999. The deficit represents an increased deficit of \$7,552 from the \$(67,989) deficit reported at December 31, 1998. Management of Mount Hermon Water District implemented a rate increase during May of 1999 and will continue to monitor the level of revenues and expenses to determine the adequacy of the existing rate structure.

9. WATER SYSTEM MANAGEMENT

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

SUPPLEMENTAL INFORMATION

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

SCHEDULE 1

COMPARATIVE BALANCE SHEET - PROPRIETARY FUND TYPE

December 31, 1999 and 1998

	Enterprise Fund	
	1999	1998
Assets		
Current Assets:		
Cash	\$ 2,180	\$ 2,822
Accounts Receivable, Net	4,935	4,001
Accrued Billings	4,111	3,456
Total Current Assets	11,226	10,279
Restricted Assets:		
Cash - RUS Depreciation & Contingency Fund	8,098	9,659
Cash - RUS Bond Reserve Fund	12,008	9,555
Total Restricted Assets	20,106	19,214
Property, Plant and Equipment:		
Land	3,890	3,890
Water System	1,603,212	1,603,212
Total Property, Plant and Equipment	1,607,102	1,607,102
Less: Accumulated Depreciation	(112,883)	(72,802)
Net Property, Plant and Equipment	1,494,219	1,534,300
Other Assets:		
Utility Deposits	220	220
Total Other Assets	220	220
 Total Assets	 \$ 1,525,771	 \$ 1,564,013
 Liabilities and Fund Equity		
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 2,908	\$ 2,936
Sales Tax Payable	184	142
Total Current Liabilities (Payable From Current Assets)	3,092	3,078
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits Payable	2,065	1,265
Current RUS Bond Payable	7,762	8,214
Accrued RUS Bond Interest	2,321	5,205
Total Current Liabilities (Payable From Restricted Assets)	12,148	14,684

Continued on the following page
The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

SCHEDULE 1

COMPARATIVE BALANCE SHEET - PROPRIETARY FUND TYPE

(Continued)

December 31, 1999 and 1998

	Enterprise Fund	
	1999	1998
Long-Term Liabilities:		
RUS Bonds Payable	\$ 729,038	\$ 736,795
Total Long-Term Liabilities	729,038	736,795
Total Liabilities	744,278	754,557
Fund Equity:		
Contributed Capital	897,287	897,287
Less: Accumulated Amortization	(60,359)	(39,056)
Net Contributed Capital	836,928	858,231
Retained Earnings:		
Reserved for RUS Bond Depreciation and Contingency	8,098	9,659
Reserved for RUS Bond Reserve Fund	12,008	9,555
Unreserved - (Deficit)	(75,541)	(67,989)
Total Retained Earnings (Deficit)	(55,435)	(48,775)
Total Fund Equity	781,493	809,456
Total Liabilities and Fund Equity	\$ 1,525,771	\$ 1,564,013

(Concluded)

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

SCHEDULE 2

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN UNRESERVED
RETAINED EARNINGS (BUDGET AND ACTUAL)-PROPRIETARY FUND TYPE**

Year Ended December 31, 1999
And Actual for the Year Ended December 31, 1998

	Enterprise Fund			
	1999 Budget	1999 Actual	Variance- Favorable (Unfavorable)	1998 Actual
Operating Revenues				
Water Sales	\$ 66,000	\$ 78,249	\$ 12,249	\$ 66,482
Installation Fees	3,800	3,610	(190)	3,555
Penalties	1,400	1,609	209	1,383
Interest Income	300	374	74	510
Miscellaneous Revenue	360	280	(80)	387
Total Operating Revenues	<u>71,860</u>	<u>84,122</u>	<u>12,262</u>	<u>72,317</u>
Operating Expenses				
Operations and Maintenance - Contract	25,200	26,024	(824)	24,841
Office Expenses	70	26	44	20
Utilities	3,800	3,794	6	3,718
Insurance	2,300	2,103	197	2,288
Accounting	2,500	2,858	(358)	2,500
Repairs and Maintenance	700	-	700	655
Conventions and Seminars	-	64	(64)	-
Bank Charges	300	76	224	-
Membership Dues	-	25	(25)	-
Miscellaneous Expense	-	-	-	294
Bad Debt Expense	2,800	-	2,800	2,481
Depreciation Expense	40,000	40,080	(80)	40,080
Total Operating Expense	<u>77,670</u>	<u>75,050</u>	<u>2,620</u>	<u>76,877</u>
Net Operating Income (Loss)	<u>(5,810)</u>	<u>9,072</u>	<u>14,882</u>	<u>(4,560)</u>
Non-Operating Revenue (Expenses):				
Interest Expense	<u>(37,036)</u>	<u>(37,036)</u>	<u>-</u>	<u>(37,387)</u>
Total Non-Operating Revenue (Expenses)	<u>(37,036)</u>	<u>(37,036)</u>	<u>-</u>	<u>(37,387)</u>
Net Income (Loss)	<u>\$ (42,846)</u>	<u>(27,964)</u>	<u>\$ 14,882</u>	<u>(41,947)</u>
Amortization of Contributed Capital		21,303		21,303
Increase in Reserve for Contingencies		(891)		(4,929)
(Deficit) Retained Earnings-Unreserved January 1, 1999		<u>(67,989)</u>		<u>(42,416)</u>
(Deficit) Retained Earnings-Unreserved December 31, 1999		<u>\$ (75,541)</u>		<u>\$ (67,989)</u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

SCHEDULE 3

COMPARATIVE SCHEDULE OF CASH FLOWS-PROPRIETARY FUND TYPE
Years Ended December 31, 1999 and 1998

	<u>12/31/99</u>	<u>12/31/98</u>
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 9,072	\$ (4,560)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	40,080	40,080
Changes in Accounts Receivable	(934)	662
Changes in Accrued Billings	(655)	(245)
Changes in Due From Rural Utilities Service	-	13,880
Changes in Accounts Payable	(27)	1,005
Changes in Sales Tax Payable	42	(678)
Changes in Customer Deposits Payable	800	810
Changes in Accrued RUS Bond Interest	(2,883)	(30,925)
Total Adjustments	<u>36,423</u>	<u>24,589</u>
Net Cash Provided by (Used For) Operating Activities	<u>45,495</u>	<u>20,029</u>
Cash Flows from Capital and Related Financing Activities:		
Bond Principal Payment - RUS Bond	(8,209)	(6,409)
Interest Payments - RUS Bond	(37,036)	(37,387)
Net Cash Provided by Capital and Related Financing Activities	<u>(45,245)</u>	<u>(43,796)</u>
Net Cash Increase (Decrease) for Year	250	(23,767)
Cash at Beginning of Year	<u>22,036</u>	<u>45,803</u>
Cash at End of Year	<u>\$ 22,286</u>	<u>\$ 22,036</u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 4

**SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
For the Year Ended December 31, 1999**

The schedule of compensation paid board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

NAME	Amount
Wendell Smith Chairman	\$ -
Everette Roberts, Vice-Chairman	-
Buddy Holmes, Secretary/Treasurer	-
Avant Vernon, Board Member	-
William Estes, Board Member	-
	\$ -

Board of Commissioners	Address	Term of Office
Wendell Smith, Chairman (Resigned from Board on 12/31/99)	34295 Sunny Hill Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2000
Everette Roberts, Vice-Chairman	36095 Thomas Cryer Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2002
Buddy Holmes, Secretary/Treasurer	36093 Hwy. 38 Mt. Hermon, LA 70450	Expires Dec. 31, 1999
Avant Vernon, Board Member	27285 Mt. Pisgah Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2000
William Estes, Board Member	38009 Bennie Morris Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2002

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 5

**SCHEDULE OF INSURANCE
For the Year Ended December 31, 1999**

Insurance Company	Coverage	Amount	Period
American Central Insurance Company Policy # MEK490348	General Aggregate Limit (other than Products / Completed Operations)	\$200,000	2/01/99 - 2/01/00
	Products / Completed Operations Aggregate Limit	\$200,000	
	Personal and Adverting Injury	\$100,000	
	Each Occurrence Limit	\$100,000	
	Fire Damage Limit	\$ 100,000	
CNA Surety Policy # 68463190	Public Official Position Schedule Bond:		1/02/96 Until Canceled
	President	\$ 40,000	
	Secretary-Treasurer	\$ 40,000	
American Central Insurance Company Policy # MEK490298	Building	\$ 9,000	2/1/99 -
	Personal Property	\$ 75,000	2/1/00

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 6

**SCHEDULE OF WATER CUSTOMERS
For the Year Ended December 31, 1999**

As of December 31, 1999, Mount Hermon Water District had the following number of customers.

Residential	271
Commercial	5
Total Customers	276

**SCHEDULE OF WATER RATES
For the Year Ended December 31, 1999**

At December 31, 1999, Mount Hermon Water District had adopted the following rate schedule.

Category of Service	Rate/mo.
Residential:	
First 3,000 gallons	\$ 15.00
Over 3,000 gallons	\$ 3.00/thsd gallons
Commercial:	
First 20,000 gallons	\$ 30.00
Over 10,000 gallons	\$ 3.00/thsd gallons

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 7

Correction Action Plan for Current Year Audit Findings

Section I - Internal Control and Compliance Material to the Financial Statements

No findings for Section I.

Section II - Management Letter

No findings for Section II.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 8

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 1999**

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 97-1

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1997

Description of Finding:

It was noted that as of December 31, 1997, Mount Hermon Water District has not determined the amount of uncollectible accounts receivable, nor developed an aging of accounts receivable. It would be necessary for Mount Hermon to manually compile this information each month, in order to have the information needed to determine which accounts are uncollectible. We recommend that the water district once again notify the billing agent that an aging of accounts, on a monthly basis, is required for proper management and reporting of accounts receivable.

Corrective Action Planned (Response by Management):

The board of commissioners of Mount Hermon Water District had indicated that they would notify the billing agent that an aging of accounts receivable must be provided as of the end of each billing month.

Corrective action taken: Partially.

Additional Explanation:

The water district has notified the billing agent that an aged receivables listing is required on a monthly basis, but the required report has not been provided.

Reference Number: 97-2

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1997

Description of Finding:

As of December 31, 1997, Mount Hermon Water District reported a deficit of \$(42,416) in unreserved retained earnings. For the fiscal year ending December 31, 1998, the deficit increased to \$(67,989), and to a deficit of (\$75,541) for the fiscal year ending December 31, 1999. The bond requirements for the district specify that the water district must "...maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

**Summary Schedule of Prior Year Audit Findings
(Continued)**

and maintaining the System, at least equal to 120% of the largest amount of principal and interest remaining on the bonds in any future fiscal year..." . For the fiscal year ending December 31, 1999, this bond debt coverage factor was 109%, which is an increase from 81% for the fiscal year ending December 31, 1998, but is below the percentage required by applicable bond covenants.

We recommend that the board of commissioners continue to monitor revenues and expenses, and the effect of the rate adjustment implemented in May, 1999.

Corrective Action Planned (Response by Management):

The board of commissioners implemented a rate increase in May of 1999, and will continue to monitor the level of revenue generated by the increase.

Corrective action taken: Partial.

Additional Explanation:

Continuing follow-up on this finding will be required until Mount Hermon Water District generates more funds to operate the water district.

Reference Number: 98-1

Description of Finding:

It was noted within Footnote 10 (Year 2000 Issue) of the *Notes to the Financial Statements*, for the fiscal year ending December 31, 1998, that the district has not inventoried computer systems and other electronic equipment that may be affected by the year 2000 issue, and that outside agencies process billing and accounting data for the district. Software and computer systems of other agencies providing services to the district have not been inventoried to determine year 2000 compliance. In addition, year 2000 compliance may be affected by the operation of electrical components within utility plants. It was unknown, as of December 31, 1998, what effects, if any, failing to remediate any such systems would have upon the Mount Hermon Water District's operations and financial reporting.

Corrective Action Planned (Response by Management):

The district maintained contact with all entities providing services to Mount Hermon Water District and did not experience year 2000 compliance problems.

Corrective Action Taken: Final

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

**Summary Schedule of Prior Year Audit Findings
(Continued)**

Section II - Management Letter

Reference Number: 96M-1

Fiscal Year of Initial Management Recommendation: Fiscal Year Ending 12/31/96

Description of Finding:

We noted in the management letter for the fiscal year ended December 31, 1996, that the fidelity bond of the billing agent should be checked to determine if it also provides coverage for Mount Hermon Water District in the event of a fidelity loss. This clarification is required since water fees are collected by the billing agent, and *the fidelity bond is issued in the name of the billing agent. Initial indications were that fidelity bonds for billing agents protect the interests of the district.* However, the fidelity bond provisions indicate that "...The property covered under this insurance is limited to property that you own or hold; or for which you are legally liable. However, this insurance is for your benefit only." Upon review by the State Rural Utilities Service office, the following opinion was issued:

In reviewing this matter with OGC, the fidelity bond requirements of our procedure must be met at a minimum. Therefore, Rural Development must be named as co-obligee and the agreement between the borrower and the billing agent must state that the billing agent is liable for the collections received. This contract should also be specifically referenced in the fidelity bond. Therefore, the borrower is protected in accordance with RUS Instructions.

We recommended that the water district immediately notify the billing agent of the above bond requirements, and follow-up to determine that their interests are protected.

Corrective Action Planned (Response by Management):

The billing agent provided a Certificate of Insurance naming the Mount Hermon Water District, of the Parish of Washington, as an additional insured for employee dishonesty coverage.

Corrective action taken: Final

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

To the Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana

We have audited the general purpose financial statements of the Mount Hermon Water District of the Parish of Washington, Louisiana, as of and for the year ended December 31, 1999, and have issued our report thereon dated March 6, 2000. We conducted our audit in accordance with generally accepted auditing 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 Mount Hermon Water District of the Parish of Washington, Louisiana'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 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 tested disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the Summary Schedule of Prior Year Audit Findings as Reference Number 97-1, and 97-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Hermon Water District of the Parish of Washington, Louisiana'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 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 operation that we consider to be material weaknesses.

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Board of Commissioners
Mount Hermon Water District
Washington Parish Council
Page 2

This report is intended solely for the information of management, the Legislative Auditor, and the USDA Rural Utilities Service. However, this report is a matter of public record and its distribution is not limited.


Bruce Harrell and Company, CPAs
A Professional Accounting Corporation

March 6, 2000