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**WATER WORKS DISTRICT NO. 1, WARD 1
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

**ANNUAL FINANCIAL REPORTS
JUNE 30, 1996 AND 1995**

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

Release Date MAR 05 1997

**WATER WORKS DISTRICT NO.1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA
FINANCIAL STATEMENTS AT JUNE 30, 1996 AND 1995**

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Management Letter

STEIRMAN, WHITFIELD AND CO., P.C.

A Corporation of
CERTIFIED PUBLIC ACCOUNTANTS

JOEL E. STEIRMAN, CPA
JANE M. WHITFIELD, CPA

P. O. BOX 2069 • 109 WEST CAMELLIA
ORANGE, TEXAS 77630

TELE (409) 883-3350
FAX (409) 883-7904

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Water Works District No. 1, Ward 1
Calcasieu Parish, Louisiana
Lake Charles, Louisiana

We have audited the accompanying general purpose financial statements of **Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana**, as of June 30, 1996 and 1995, and for the years then ended. These general purpose financial statements are the responsibility of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, 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, *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, as of June 30, 1996 and 1995, and the results of its operations and the cash flows of its proprietary type unitary fund for the years then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying statistical section is not a required part of the financial statements of the District. This information has been subjected to the auditing procedures applied in the examination of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Governmental Auditing Standards, we have also issued a reports on the our consideration of the District's internal control structure and the District's compliance with laws and regulations, dated December 25, 1996.

Steirman, Whitfield and Co., PC
Steirman, Whitfield, and Co. PC
Certified Public Accountants
December 25, 1996

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

EXHIBIT A

**COMPARATIVE BALANCE SHEETS AT
JUNE 30, 1996 AND 1995**

<u>ASSETS</u>	<u>1996</u>	<u>1995</u>
Current Assets		
Cash-unrestricted	182,905	308,469
Accounts receivable	150,118	157,236
Inventory-materials and supplies	27,647	31,665
Prepaid insurance	9,012	8,712
Total Current Assets	<u>369,682</u>	<u>506,082</u>
Fixed Assets		
Land	65,416	65,416
Construction in process	--	765,221
Depreciable assets	6,384,878	5,421,126
Less-Accumulated depreciation	<u>(2,672,798)</u>	<u>(2,455,877)</u>
Total Fixed Assets	<u>3,777,496</u>	<u>3,795,886</u>
Other Assets		
Cash-restricted	1,813,037	554,657
Repurchase agreement	272,500	--
Bond issue costs	166,286	92,370
Less - Accumulated amortization	<u>(53,387)</u>	<u>(45,322)</u>
Total Other Assets	<u>2,198,436</u>	<u>601,705</u>
Total Assets	<u><u>6,345,614</u></u>	<u><u>4,903,673</u></u>
<u>LIABILITIES AND FUND EQUITIES</u>		
Current Liabilities		
Bonds payable (Note 3)	216,000	151,000
Accounts payable	20,795	8,688
Payroll and sales taxes payable	4,718	4,063
Interest payable	110,643	69,931
Total Current Liabilities	<u>352,156</u>	<u>233,682</u>
Long Term Debt		
Bonds payable (Note 3)	3,342,000	2,493,000
Other Liabilities		
Customer deposits	85,785	77,990
Due to State of Louisiana/Act 319	929,112	775,607
Total Other Liabilities	<u>1,014,897</u>	<u>853,597</u>
Total Liabilities	<u>4,709,053</u>	<u>3,580,279</u>
Fund Equity		
Unrestricted	46,026	(135,626)
Restricted	1,590,535	1,459,020
Total Fund Equity	<u>1,636,561</u>	<u>1,323,394</u>
Total Liabilities and Fund Equity	<u><u>6,345,614</u></u>	<u><u>4,903,673</u></u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

EXHIBIT B

**COMPARATIVE STATEMENTS OF REVENUE
AND EXPENSES FOR THE YEARS ENDED
JUNE 30, 1996 AND 1995**

	1996	1995
Operating Revenue		
Water Sales	1,062,453	942,400
Tapping, connection, and meter fees	103,583	69,211
Total Operating Revenue	<u>1,166,036</u>	<u>1,011,611</u>
Operating Expenses		
Production and distribution	317,720	290,164
General and administrative	286,043	274,602
Total Operating Expenses	<u>603,763</u>	<u>564,766</u>
Operating Revenue before depreciation	562,273	446,845
Depreciation	<u>255,513</u>	<u>246,652</u>
Net Operating Income after depreciation	306,760	200,193
Non-Operating Revenue		
Interest	16,607	11,471
Ad valorem taxes	242,115	221,017
Miscellaneous	16,292	18,945
Total Non-Operating Revenue	<u>275,014</u>	<u>251,433</u>
Non-Operating Expenditures		
Interest on HUD Bonds	37,260	39,060
Interest on general obligation bonds	110,600	116,667
Interest Refunding Issue	120,747	81,235
Total Non-Operating Expenditures	<u>268,607</u>	<u>236,962</u>
Non-Operating revenue (Expenditures)	<u>6,407</u>	<u>14,471</u>
Net Revenue (Loss) for year	<u><u>313,167</u></u>	<u><u>214,664</u></u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

EXHIBIT C

**COMPARATIVE STATEMENTS OF CHANGES IN
FUND EQUITIES FOR THE YEARS ENDED
JUNE 30, 1996 AND 1995**

<u>1996</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Fund Equity June 30, 1995	(135,626)	1,459,020	1,323,394
Net Revenue or (Loss)	<u>181,652</u>	<u>131,515</u>	<u>321,766</u>
Fund Equity June 30, 1996	<u><u>46,026</u></u>	<u><u>1,590,535</u></u>	<u><u>1,636,561</u></u>
<u>1995</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Fund Equity July 31, 1994	(245,940)	1,354,670	1,108,730
Net Revenue or (Loss)	<u>110,314</u>	<u>104,350</u>	<u>214,664</u>
Fund Equity June 30, 1995	<u><u>(135,626)</u></u>	<u><u>1,459,020</u></u>	<u><u>1,323,394</u></u>

The accompanying notes are integral to these financial statements

EXHIBIT D

Reconciliation of net revenue to net cash provided by operating activities:

	<u>1996</u>	<u>1995</u>
Net operating income (loss) after depreciation	306,760	200,193
Adjustments to reconcile net revenue (loss) to net cash provided by operating activities:		
Depreciation and amortization	263,578	246,652
Interest income	16,607	11,471
Miscellaneous fees received	16,292	18,945
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	7,118	(22,571)
Increase (decrease) in accounts payable	12,107	(17,372)
Increase (decrease) in payroll and sales taxes payable	655	425
Decrease (increase) in inventory	4,018	(3,745)
Decrease (increase) in prepaid expenses	(300)	(416)
Total adjustments	<u>320,075</u>	<u>233,389</u>
Net cash provided by operating activities	<u>626,835</u>	<u>433,582</u>

Disclosure on accounting policy:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The accompanying notes are integral to these financial statements.

**WATER WORKS DISTRICT NO.1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS AT

JUNE 30, 1996 AND 1995

Note 1.- Summary of Significant Accounting Policies:

A. Entity. The Water Works District No. 1, Ward 1 of Calcasieu Parish is an independent district created by the Calcasieu Parish Police Jury in 1973 in accordance with section 3811 of the Louisiana Revised Statutes. The District's commissioners are appointed for five year staggered terms by the Calcasieu Parish Police Jury and serve at the pleasure of the Police Jury. The District has authority, as stipulated in the applicable Louisiana Statutes to set such rates as necessary and to provide potable water within its boundaries. The District is a corporate entity that can purchase land, sue and be sued. The Police Jury exercises no control over the finances, rates, or operation of the District as specified in the enabling statutes. The District is governed by its Board of Commissioners and the day-to-day operations are conducted by a Superintendent and staff who serve at the pleasure of the Board of Commissioners.

The Calcasieu Parish Police Jury recognizes the District as a component unit and the District's financial position and operations are an element of the Parish's Annual Financial Statements. The District has no component units as set forth in the Governmental Accounting Standards Board Statement 14.

B. The Budget is submitted by the Superintendent on an annual basis to the Commissioners for their approval each year in the month of April. The Board then publishes notices of public hearing and considers the proposed budget in public hearing. The budget is normally adopted at the regular June meeting. The budget document is both the financial plan for the ensuing year and formal authorization for the Superintendent to obligate the District as permitted by law. All items subject to bid are advertised upon approval of the Board and then processed as required by Louisiana Law. Budget amounts are not shown in these statements since they are not required by the Enterprise Fund type of accounting. The District did not violate any of its budgeted expenditures for the years ended September 30, 1996 and 1995. The budget may be amended by a simple majority at any meeting. There is no prior public or other notice required. The budget is amended as necessary to demonstrate fiscal integrity and the source of funding of any change.

C. The District uses the Enterprise Fund type. This means that the operations of the District are accounted for like a for-profit, private company. The purpose of this type of accounting is for the proper measurement and control of the services rendered in relation to the user fees required to provide those services. Theoretically, the District should operate solely from the user fees obtained. The District believes that the Enterprise Fund type more correctly presents this than the other types of fund accounting established for governmental bodies. Despite this presentation the District issued General Obligation Bonds and presents the taxes collected and interest paid for these bonds as other income and expenses.

D. Accrual Accounting is used to measure revenue from operations and expenses due to operations. This means revenue is recorded when earned, not when the cash is received, and that expenses or expenditures are recorded when the obligation to pay arises, not when the obligation is paid.

**WATER WORKS DISTRICT NO. 1, WARD 1,
Calcasieu Parish, Louisiana
Notes to the Financial Statements
June 30, 1996 and 1995**

E. Ad Valorem Taxes (General Obligation Taxes) are recorded as received. The District does not record taxes receivable beyond sixty days of its year end because of the uncertainty of when the unpaid taxes will be collected and the uncertainty that they will be available to satisfy current obligations. As a result since it is unknown if these taxes would be available to pay the current general obligation debt service, they are not recorded as receivable nor otherwise recognized.

F. Bad accounts are written off at the end of each year using the direct write off method. The low amount of uncollectible accounts does not warrant the establishment of an allowance for bad debts against the receivable for water sales. The District considers any final billing that is receivable more than 120 days to be a bad debt. If any recovery is made, the collection is posted as other income. The amount of written off as bad accounts for fiscal year 1996 was \$3,750 and the amount for 1995 was \$1,677.

G. Cash, certificates of deposits and investments are with national or state chartered banks. The cost of the certificates of deposits is the face value of the certificates of deposit. This is permitted by Louisiana law. The District has no investments other than certificates of deposit.

(1) Cash and certificates of deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Deposits are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 Deposits which are collateralized with securities held by pledging financial institutions, trust departments or agents in the entity's name.

Category 3 Deposits which are not collateralized with securities issued in the District's name.

Based on these three levels of risk, all of the District's cash deposits are classified as category 1 and 3 as follows:

<u>1996</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Category 1	\$ 182,905	\$ 278,122	\$ 461,027
Category 3	-0-	1,545,824	1,545,824
Total	<u>\$ 182,905</u>	<u>\$ 1,823,946</u>	<u>\$ 2,006,851</u>
<u>1995</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Category 1	\$ 100,662	\$ 100,000	\$ 200,662
Category 3	207,807	454,657	662,464
Total	<u>\$ 308,469</u>	<u>\$ 554,657</u>	<u>\$ 863,126</u>

All of the Deposits not covered by FDIC Insurance have collateral pledged to them as required by Louisiana law governing deposits of public funds.

The fair market value of the pledged securities at June 30, 1996 was in excess of the carrying amount.

(2) The District had purchased a re-purchase agreement on US Treasury bill on October 29, 1995 for \$272,500. The issuing bank pledged as collateral a US Treasury Note with a carrying value of \$2,000,000 as collateral. The fair market value of that instrument was -- at June 30 1996. The pledged collateral was placed with a third party for safe keeping. The agreement had a term of 238 days and had a yield of 5.06% to the District. The District upon completion of the agreement decided not purchase any further instruments other than Certificates of Deposits thereafter.

H. Inventories are recorded at cost and are expended as they are consumed on a first-in first-out basis.

I. Fixed Assets are recorded at cost or fair market value if contributed. These assets are depreciated over their estimated useful lives on a straight line basis.

Typical Estimated Lives Used

Buildings	30 years
Improvements other than buildings	30-50 years
Equipment	3-12 years

J. Bond Issue costs are amortized over the term of the issued bonds.

K. Fund Equities is used to account for excess of revenue over expenditures and contributed capital. The District did not account separately prior to the current GAFR principles between contributed capital and retained earnings. Fund equity is divided into restricted and unrestricted. The restricted balance is from taxes collected and restricted grants. The use of the term retained earnings is not used because it is not known what portion of the District's equity is earned and what was contributed by the State and Federal grants over the past thirteen years. It is known that \$21,526 was contributed by the state of Louisiana in 1973, and \$461,100 was contributed by the U.S. Economic Development Commission in 1978, and \$71,716 was a grant in 1987 through 1988 by the State of Louisiana for a fluoridation plant.

L. No compensated absences, sick leave, or vacation are permitted to accrue from one year to the next.

M. For purposes of the statement of cash flows, cash and cash equivalents include any time deposit that has a maturity of less than three months.

Note 2.- Bonds Payable

A. GENERAL DESCRIPTION: The District has three (3) series of bonds. Two (2) series are Water Revenue Bonds, the first dated November 1, 1971, in the amount of \$1,059,000, purchased by the U.S. Department of Housing and Urban Development (HUD) and the second, dated March 1, 1983, in the amount of \$1,100,000, purchased by Farmers Home Administration (FMHA). This last series was refunded as explained below on March 1, 1988 with the proceeds of an advance refunding issued on February 15, 1988. This advance refunding was defeased on June 9, 1992 by a bond issue of \$1,320,000. This refunding issue was refunded a third time on December 1, 1995. The new issue was divided into two parts. The first refunded the remaining bonds on the 1992 issue and was an issue of \$1,240,000. A second issue, 1995 Series B, was for \$1,000,000 for immediate improvements to the system.

B. CURRENT BALANCE, RATES, AND MATURITIES :

1. The original issue was for \$1,059,000 and issued by the Department of Housing and Urban Development on November 1, 1971 with annual interest of six percent. Interest is paid semi-annually on May 1st and November 1st each year. Principal is paid annually on November 1st. The balance of these bonds at year end is shown herein.

2. The 1992 refunding issue was for \$1,320,000 and issued on June 9, 1992 with varying interest rates between 3.8% and 7.0% with the majority of the issue at the higher rates. The term of the bonds was for twenty years with principal payments to be made annually on March 1st. Interest payments were semi-annually and to be paid on September 1st and March 1st. The balance of these bonds at year end is shown herein.

**WATER WORKS DISTRICT NO. 1, WARD 1,
Calcasieu Parish, Louisiana
Notes to the Financial Statements
June 30, 1996 and 1995**

3. The 1995 Series A and Series B bonds were issued on December 1, 1995 in the amounts of \$1,240,000 and \$1,000,000 respectively. The interest rates vary on this issue 4.6% to 6.10% and are for fifteen years with principal paid annually on March 1st and interest paid semi-annually on September 1st and March 1st. The balance of these bonds at year end is shown herein.

The third series is an Ad Valorem (General Obligation) series dated March 1, 1982, in the amount of \$1,200,000.

Total Debt Payable (Principal & Interest) at June 30, 1995 is as follows:

<u>Year Ending June 30</u>	<u>General Obligation</u>	<u>HUD</u>	<u>Refunding Issue</u>	<u>Total</u>
1996	185,600	73,260	117,783	376,643
1997	185,100	71,100	120,423	376,623
1998	183,200	68,060	122,723	374,083
1999	184,900	66,780	124,672	376,352
2000	184,500	64,620	121,262	370,382
2001	182,000	62,460	122,798	367,258
2002	182,400	60,300	123,958	366,658
2003	-0-	58,140	124,733	182,873
2004-2008	-0-	271,050	617,468	888,518
2009-2013	-0-	174,720	359,595	534,315
TOTAL	<u>\$1,287,700</u>	<u>\$ 970,490</u>	<u>\$ 1,955,414</u>	<u>\$ 4,213,705</u>

Total Debt Payable (Principal & Interest) at June 30, 1996 is as follows:

Year Ending <u>June 30</u>	General <u>Obligation</u>	<u>HUD</u>	Refunding <u>Issue</u>	<u>Total</u>
1997	185,100	71,100	118,872	375,072
1998	183,200	68,060	120,488	371,748
1999	184,900	66,780	122,903	374,583
2000	184,500	64,620	125,022	374,142
2001	182,000	62,460	116,838	361,298
2002	182,400	60,300	118,838	361,538
2003	-0-	58,140	120,555	178,695
2004-2008	-0-	271,050	617,420	888,470
2009-2013	-0-	<u>174,720</u>	<u>467,570</u>	<u>642,290</u>
TOTAL	<u>\$1,102,100</u>	<u>\$ 897,230</u>	<u>\$ 1,928,506</u>	<u>\$ 3,927,836</u>

Under the terms of the bond indenture on outstanding HUD Water Revenue bonds, dated November 1, 1971, all income derived from its operation or ownership shall be deposited to the credit of a special fund to be known as the "Water System Revenue Fund", to be kept separate and apart from all other funds. Such funds shall be maintained so long as any of the bonds are outstanding, in a bank which is a member of the Federal Deposit Insurance Corporation and shall be expanded and used only in the manner and order specified below, all as permitted and defined by applicable statutes:

1. Current expenses of the system shall be payable from month to month as a first charge against the Water System Revenue Fund as the same become due and payable. The current expenses of the operation of the system in any year will not exceed the reasonable and necessary amount therefore. Current expenses shall include all reasonable and necessary costs of operating, repairing, maintaining and insuring the system, but shall exclude depreciation, payments into the "Revenue Bond and Interest Sinking Fund," the "Revenue Bond Reserve Fund" and the "Replacement Fund."

2. Transfers shall be made monthly from the "Water System Revenue Fund" to the "Revenue Bond Fund" of sums sufficient (not less than one-sixth of interest and one-twelfth of principal) to provide for the payment of the next maturing interest on and the principal of the Revenue Bonds.

3. A monthly sum, equal to 20% of that sum transferred to the "Revenue Bond Fund," shall be transferred to a debt service reserve fund, to be designated as the "Revenue Bond Reserve Fund," until such time as the funds and/or investments in the "Revenue Bond Reserve Fund" shall equal \$70,000.

4. Monthly amounts of \$1,000 shall be transferred from the "Water System Revenue Fund" into the "Replacement and Extension Fund" until the balance in the "Replacement and Extension Fund" amounts to \$75,000. Said fund shall, thereafter, be maintained in said amount. Monies in the "Replacement and Extension Fund" may be withdrawn and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and for paying the costs of improvements to the system which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the "Revenue Bond Fund" and/or the "Revenue Bond Reserve Fund" shall at any principal or interest payment date be insufficient to pay the next installment of principal and/or interest and to maintain the required debt service of \$70,000 then transfers shall be made from said "Replacement and Extension Fund" in such amounts as are necessary to eliminate the deficiencies, respectively in said "Revenue Bond Fund" and in said "Revenue Reserve Bond Fund."

5. Issues: The refunding issue of 1992 and the 1995 Series bonds have only one covenant pertaining to the sinking and revenue requirements of the District. That requirement is that the District will maintain a ratio of operating income to all revenue bonds debt service of 1.3 times. This ratio does not include depreciation or other non-cash expenses.

B. Changes in Long-Term Debt -- The following is a summary of bond transactions of the Water Works District

**WATER WORKS DISTRICT NO. 1, WARD 1,
Calcasieu Parish, Louisiana
Notes to the Financial Statements
June 30, 1996 and 1995**

No. 1:

	<u>General Obligation</u>	<u>Revenue</u>	<u>Total</u>
Bonds Payable June 30, 1994	\$ 855,000	\$ 1,925,000	\$ 2,780,000
Bonds Retired	<u>(65,000)</u>	<u>(71,000)</u>	<u>(136,000)</u>
Bonds Payable June 30, 1995	790,000	1,854,000	2,644,000
Bonds Payable June 30, 1995	\$ 790,000	\$ 1,854,000	\$ 2,644,000
Bonds Issued		2,240,000	2,240,000
Bonds Retired	<u>(75,000)</u>	<u>(1,251,000)</u>	<u>(1,326,000)</u>
Bonds Payable June 30, 1996	715,000	2,843,000	3,558,000
<u>Current Portion:</u>		<u>1996</u>	<u>1995</u>
General Obligation		\$ 85,000	\$ 75,000
Revenue- HUD 1971		36,000	36,000
Revenue 1995 Series		95,000	
Revenue- Refunding Issue 1992		—	<u>40,000</u>
Total Current Bonds Due For The Year Ended June 30		<u>\$ 216,000</u>	<u>\$ 151,000</u>

C. Advance refunding of 1983 Revenue Bonds and Defeasement of the 1988 Refunding Issue:

On February 15, 1988, the District issued \$1.15 million in Revenue bonds with interest rates that advanced from 7% to 10% over the term of the bonds, to advance refund \$1,094,000 of outstanding 1983 Junior Lien Revenue bonds with average interest rate of 11%. The net proceeds \$1,092,923 were used to purchase securities as permitted. These securities were placed in an irrevocable trust with the Calcasieu Marine National Bank, Lake Charles, Louisiana. The bonds were called for refund by March 1, 1988. The outstanding bonds were presented for payment on May 6, 1988 and were canceled by the Trust Agent. The 1983 outstanding bonds ceased to earn interest as of the call date of March 31, 1988. As a result the 1983 issue of bonds were considered to be fully defeased as of March 1, 1988 except for the principal originally due for March 1, 1988. This principal payment of \$2,000 was not paid until December 1988. Although the advance refunding resulted in a present value savings of approximately \$68,814 for the year ending June 30, 1988, the District in effect reduced its aggregate debt service payments by about \$1.28 million over the next twenty five years.

The District elected not to follow the normal treatment of recording the gain from the extinguishment of debt that resulted either as an ordinary or extra-ordinary item for the year ended June 30, 1988. Nor is this gain to be recorded over the life of the refunding issue. The effect of recording this gain in the District's opinion would distort the actual position of the District and would overstate the District's capital position.

On June 9, 1992, the District issued \$1,320,000 in Revenue bonds with an average interest rate of 6.688% over the term of the bonds, to advance refund \$1,085,000 of outstanding 1988 Advance Refunding bonds 7 to 10%. The net proceeds \$1,265,700 (after payment of \$54,000 in underwriting fees, legal opinion and other issue costs) were used to purchase securities as permitted. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Advance Refunding issue. As a result, the 1988 Advanced Refunding issue bonds are considered to be defeased and the liability for those bonds has been removed

from the Districts balance sheet and underlying general ledger. The Trust Department of the Premier Bank of Baton Rouge, Louisiana is the escrow agent.

Although the advance refunding resulted in a present value savings of approximately \$68,817 for the year ending June 30, 1992, the District in effect reduced its aggregate debt service payments by about \$159,278 over the next twenty five years despite the increase in bonded debt by \$235,000.

The District elected not to follow the normal treatment of recording the gain from the extinguishment of debt that resulted either as an ordinary or extra-ordinary item for the year ended June 30, 1992. Nor is this gain to be recorded over the life of the refunding issue. The effect of recording this gain in the District's opinion would distort the actual position of the District and would overstate the District's capital position. The increase in debt was recorded as an extra-ordinary item.

On December 1, 1995, the District issued \$2.24 million in Revenue bonds with interest rates that advanced from 4.6% to 6.10% over the term of the bonds, to \$1,215,000 of outstanding 1992 Refunding Issue bonds with a remaining average interest rate of 5.9% to 7%. The net proceeds were used to recall the prior issued bonds and to pay the bond issue costs. The total cash pay out for the refunded issue was \$1,955,412 and the refunding issue has a total cash pay out of \$1,927,945. The net cash saving is \$27,467 and this has a present value of \$16,595.

The District elected not to record the gain from the extinguishment of debt that resulted as either as an ordinary or extra-ordinary item for the year ended June 30, 1996. Nor is this gain to be recorded over the life of the refunding issue. The effect of recording this gain in the District's opinion would distort the actual position of the District and would overstate the District's capital position.

Note 3. -Summary of the changes in Fixed Assets

	Balance <u>6-30-94</u>	<u>Add</u>	<u>Delete</u>	Balance <u>6-30-95</u>
Land	\$ 64,960	\$ 455	\$ -0-	\$ 65,415
Building	146,956	-0-	-0-	146,956
Water System	4,986,466	50,128	-0-	5,036,594
Furniture	78,598	-0-	-0-	78,598
Vehicles	86,109	14,317	12,507	87,919
Equipment	<u>71,059</u>	<u>-0-</u>	<u>-0-</u>	<u>71,059</u>
Total	<u>\$ 5,434,148</u>	<u>\$ 64,900</u>	<u>\$ 12,507</u>	<u>\$ 5,486,541</u>

	Balance <u>6-30-93</u>	<u>Add</u>	<u>Delete</u>	Balance <u>6-30-94</u>
Land	\$ 64,928	\$ 32	\$ -0-	\$ 64,960
Building	146,956	-0-	-0-	146,956
Water System	4,923,870	62,596	-0-	4,986,466
Furniture	78,598	-0-	-0-	78,598
Vehicles	85,742	9,967	9,600	86,109
Equipment	<u>69,799</u>	<u>1,770</u>	<u>510</u>	<u>71,059</u>
Total	<u>\$ 5,369,893</u>	<u>\$ 74,365</u>	<u>\$ 10,110</u>	<u>\$ 5,434,148</u>

Note 4. -Ad Valorem Taxes:

For the years ended June 30, 1996 and 1995, taxes of 19 and 19 mills were levied on property with assessed valuations of \$11,591,730 and \$ 11,587,290 respectively. These amounts are reported net of homestead exemptions and other exempted properties. The tax year is based on the calendar year as follows: The District determines its millage by June 1, the Parish Tax Assessor then, after applying certain procedures required by law, forwards the millage to the Tax Collector for notification and billing. Taxes become delinquent after December 31st of the year levied.

**WATER WORKS DISTRICT NO. 1, WARD 1,
Calcasieu Parish, Louisiana
Notes to the Financial Statements
June 30, 1996 and 1995**

Note 5. -Pension Plan:

The Water Works District No.1, Ward 1, matches the employees' contributions (up to 5% of gross wages) to obtain purchase money annuities through New York Life Insurance Company. The District has no obligation other than that of paying the current year's liability. The District paid \$9,070 in 1995 and \$8,968 in 1996 as its contribution to the annuities. The District has no obligation for the annuity contracts held by New York Life past, current, or future. Further, the District management is under no obligation to continue its voluntary contributions to each employee's annuity contract. There is no unfunded pension obligation.

Note 6. -Due to State of Louisiana/Act 319

The District received two loans under Louisiana Act 319: The District had to relocate utility facilities along LA Hwy. 378 in 1986. The total cost of the project was \$386,213. Of this amount, the District paid \$20,399 (5.54%) for betterments; the State reimbursed to the District \$186,242 and the remainder, \$161,572 (43.88%) was loaned to the District by the State under Act 319. The District is currently receiving funds for the relocation of Highway 171 service lines. The District has no direct cost of this project. The District is advanced funds under Act 319 as payment is made regarding this project. The amount paid during fiscal 1995 was \$614,035. The project was not completed at June 30, 1995 and about fifteen percent remained to be completed. Both of these loans are non-interest bearing loans, and there are no set maturity dates for these notes. The project was nearly complete at June 30, 1996 and an additional \$ 153,505 was given the District to pay for the relocation of the lines on Highway 171. The revised balance of the loan as shown on the balance sheet reflects this increase. The exact amount that the District may further obtain under this program is not determinable at this time. After the State Department of Transportation audits the costs and makes a determination, the District will be advised if it to receive any further funds under Act 319.

Note 7. -Sales Taxes

Sales taxes are collected by the District on cash received for water fees and paid to the State of Louisiana on a monthly basis. The tax remitted on these collections from water fees for fiscal 1996 and 1995 were \$39,076 and \$33,899 respectively.

Note 8. -Construction Commitment

The District is obligated to relocate its water lines on Highway 171 due to the State of Louisiana's renovation of Highway 171 during fiscal years 1996 and 1995. The District has begun to incur expenses in connection with this project. The District will have to bear any cost for betterments that may result from this project. The District does not envision this amount to be material. The exact amount of the betterments can not be determined until the Highway Department completes the project and determines the amount that will have to be paid by the District. The District has incurred some expenses in obtaining right of way easements and these costs have been shown as increases in land as presented in the financial statements. The District expended \$ 696,061 for this project during the year ended June 30, 1995. The District expended \$118,586 during the year ended June 30, 1996 to complete this project. All of the costs have been capitalized and recorded at June 30, 1996.

Note 9. -Litigation

There was no active, pending or contemplated litigation at June 30, 1995 and 1996.

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

**SCHEDULE OF FIXED ASSETS AND
ACCUMULATED DEPRECIATION
AT JUNE 30, 1996**

	<u>Basis of Assets</u>			<u>Balance 6-30-96</u>
	<u>Balance 6-30-95</u>	<u>Addition</u>	<u>Reduction</u>	
Land	65,415		-0-	65,415
Building	146,956	-0-	-0-	146,956
Distribution System	2,824,359	924,678	-0-	3,749,037
Water Wells	245,523	-0-	-0-	245,523
Water Plant	1,419,781	21,812	-0-	1,441,593
Water Tank	546,930	-0-	-0-	546,930
Office Furniture	78,598	-0-	-0-	78,598
Vehicles	87,919	8,480	9,268	87,131
Equipment	<u>71,059</u>	<u>42,227</u>	<u>29,326</u>	<u>83,960</u>
Total	<u>5,486,540</u>	<u>997,197</u>	<u>38,594</u>	<u>6,445,143</u>

SCHEDULE 1

<u>Accumulated Depreciation</u>				
<u>Balance 6-30-95</u>	<u>Current Depreciation</u>	<u>Reduction</u>	<u>Balance 6-30-96</u>	<u>Book Value</u>
-0-	-0-	-0-	-0-	65,415
63,049	4,320	-0-	67,369	79,587
1,283,603	165,085	-0-	1,448,688	2,300,349
155,569	10,314	-0-	165,883	79,640
569,582	50,317	-0-	619,899	821,694
176,271	13,673	-0-	189,944	356,986
71,441	2,847	-0-	74,288	4,310
67,061	4,556	9,268	62,349	24,782
69,303	4,400	29,326	44,377	39,583
<u>2,455,879</u>	<u>255,512</u>	<u>38,594</u>	<u>2,672,797</u>	<u>3,772,346</u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

**SCHEDULE OF FIXED ASSETS AND
ACCUMULATED DEPRECIATION
AT JUNE 30, 1995**

	<u>Basis of Assets</u>			<u>Balance 6-30-95</u>
	<u>Balance 6-30-94</u>	<u>Addition</u>	<u>Reduction</u>	
Land	64,960	455	-0-	65,415
Building	146,956	-0-	-0-	146,956
Distribution System	2,774,231	50,128	-0-	2,824,359
Water Wells	245,523	-0-	-0-	245,523
Water Plant	1,419,781	-0-	-0-	1,419,781
Water Tank	546,930	-0-	-0-	546,930
Office Furniture	78,598	-0-	-0-	78,598
Vehicles	86,109	14,317	12,507	87,919
Equipment	71,059	-0-	-0-	71,059
Total	<u>5,434,147</u>	<u>64,900</u>	<u>12,507</u>	<u>5,486,540</u>

SCHEDULE 1A

<u>Accumulated Depreciation</u>				
<u>Balance 6-30-94</u>	<u>Current Depreciation</u>	<u>Reduction</u>	<u>Balance 6-30-95</u>	<u>Book Value</u>
-0-	-0-	-0-	-0-	65,415
58,729	4,320	-0-	63,049	83,907
1,122,102	161,501	-0-	1,283,603	1,540,756
145,255	10,314	-0-	155,569	89,954
519,654	49,928	-0-	569,582	850,199
162,598	13,673	-0-	176,271	370,659
67,980	3,461	-0-	71,441	7,157
76,143	3,425	12,507	67,061	20,858
<u>69,274</u>	<u>29</u>	<u>-0-</u>	<u>69,303</u>	<u>1,756</u>
<u><u>2,221,735</u></u>	<u><u>246,651</u></u>	<u><u>12,507</u></u>	<u><u>2,455,879</u></u>	<u><u>3,030,661</u></u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

SCHEDULE 2

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED
JUNE 30, 1996 AND 1995**

	<u>1996</u>	<u>1995</u>
Production and Distribution:		
Personal Services	99,232	94,688
Repairs and maintenance		
Equipment	8,984	9,602
Wells, plant & power	26,583	25,298
Taps & Lines	24,401	16,939
Power	84,397	78,222
Chemical	54,702	41,742
Truck	16,639	21,142
Supplies	2,695	1,224
Equipment Rental	87	1,307
Total production & distribution expenses	<u>317,720</u>	<u>290,164</u>
General and Administrative:		
Personal service-office	88,135	84,269
Personal service-meter reading	14,003	13,852
Insurance	28,123	29,067
Office operations	7,580	6,406
Computer maintenance and software	2,031	4,182
Payroll taxes	16,553	15,915
Communications	6,956	6,407
Legal and professional	12,500	12,300
Utilities	3,409	4,020
Postage	14,160	12,116
Meeting expenses and per diem	7,200	7,200
Billing and collection	3,644	4,365
Miscellaneous	2,090	1,684
Amortization of bond issue costs	8,064	9,409
Employees benefits	57,771	52,771
Janitorial	8,705	7,905
Printing	281	47
Conferences, workshops & certificates	1,088	1,010
Bad Debt	3,750	1,677
Total general & administrative expenses	<u>286,043</u>	<u>274,602</u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

SCHEDULE 3

CASH BALANCES AT JUNE 30, 1996 AND 1995

	<u>1996</u>	<u>1995</u>
<u>Detail of Cash Accounts and Liquid Investments:</u>		
A. Certificates of deposits and savings	142,055	135,545
B. Calcasieu Marine National Bank-revenue	271,130	336,514
C. Bank-payroll	994	662
D. Sinking HUD	45,570	43,628
E. Cash on hand	400	400
F. Checking and CD - G.O. sinking account	256,929	200,413
G. Checking and CD - construction account	14,463	14,140
H. Revenue refunding bond issue-sinking account	3,095	73,486
I. Restricted cash - customer deposits	(879)	58,338
J. 95 Bond Sinking funds	30,000	--
K. Certificates of Deposit for Construction-FNB	1,232,184	--
L. Repurchase agreement	272,501	--
Total	<u>2,268,442</u>	<u>863,126</u>
<u>Division of Cash</u>		
Restricted:		
A. Reserve for customer deposits	85,785	77,990
B. Sinking fund for bond interest	335,594	317,527
C. Bond extension and replacement	75,000	75,000
D. Bond revenue	70,000	70,000
E. Construction & capital purposes	1,519,148	14,140
Total Restricted Cash	<u>2,085,527</u>	<u>554,657</u>
Unrestricted Cash	<u>182,915</u>	<u>308,469</u>
Total Restricted and Unrestricted Cash	<u>2,268,442</u>	<u>863,126</u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

SCHEDULE 4

**SCHEDULE OF COMMISSIONERS
PER DIEM AND ATTENDANCE
FOR THE YEARS ENDED
JUNE 30, 1996 AND 1995**

Commissioners:	Expiration of term	1996		1995	
		Per Diem	Meetings Attended	Per Diem	Meetings Attended
David Dotson Vice Pres.	Sept. 1997	1,440	29	1,440	22
J.R. McCain Sec/Tres.	Sept. 1996	1,440	25	1,440	18
Haskell Nixon Pres.	Sept. 1998	1,440	27	1,440	24
Earl O'Quinn	Sept. 2000	1,440	29	1,440	22
Glen Franklin	Sept. 1999	<u>1,440</u>	<u>28</u>	<u>1,440</u>	<u>23</u>
Total Per Diem		<u><u>7,200</u></u>	<u><u>138</u></u>	<u><u>7,200</u></u>	<u><u>109</u></u>

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

SCHEDULE 5

**SCHEDULE OF INSURANCE IN FORCE
JUNE 30, 1996 AND 1995**

Fire, Lightning and Extended Coverage:

(Subject to 80% Co-Insurance)

Contents of Water Treatment Building/Plant	290,000
Deep Well Pump	55,000
Office Building	75,000
Content of Office Building	50,000
Filter System	150,000
Back hoe	19,000
Elevated Water Tanks	402,000
Ground Storage Tank	50,000

Comprehensive General and Automobile Liability:

Bodily Injury:

Each person	300,000
Each accident	300,000
Uninsured Motorist	300,000

**Standard Workman's Compensation:
(Limits to \$100,000)**

100,000

General Liability and Property Damage:

500,000

Fidelity Bond:

(per employee)

10,000

The accompanying notes are integral to these financial statements

SCHEDULE OF RATES

Rates were increased on November 11, 1995

A. Water Rate Classification and Schedule:	<u>Before</u>	<u>After</u>
1. Class I - Residential - One (1) user on Owner's property First 2,000 gallons - (minimum)	\$5.00	\$6.00
2. Class II - Commercial and Industrial First 10,000 gallons - (minimum)	\$12.00	\$15.00
3. Class III - Trailer Parks and Apartments (Multiple users through one meter) minimum per family unit with a basic allowance of 2,000 gallons per family unit.	\$7.00	\$8.00
All Customers- each 1,000 gallons in excess of the above	\$1.76	\$1.96

B. Deposits and Service Charges (Revised)

1. Deposits		
Residential		\$10.00
Residential (renter)		\$50.00
Commercial	\$30.00	TO \$100.00
Fire Hydrant Usage		\$20.00
Industrial (to be determined by Waterworks No. 1)		-0-
2. Service Charges		
Turn on or transfer		\$15.00
After 4:30 p.m. or on weekends		\$30.00
Name change only		\$5.00
Collection charge		\$15.00
NSF Checks		\$10.00
Fire Hydrant Meter Rental (Per day)		\$10.00
Fire Hydrant Meter (Installation)		\$10.00
Plans and Specifications 5,000 Min. (Plus \$2.00 per 1,000' over 5,000')		\$50.00
Inspection fee (\$1.00 per unit/lot) plus base rate of		\$50.00
Tapping Fee (5/8" X 3/4")--effective 11-1-95 3/4', 1-1/2", & 2" (Cost of labor & materials)		\$400.00

C. The System shall be operated on a fully metered basis.

D. No free service will be allowed.

E. No dual connection will be allowed (more than one user on a single meter) other than specified in classifications.

The accompanying notes are integral to these financial statements

**WATER WORKS DISTRICT NO. 1, WARD 1,
CALCASIEU PARISH, LOUISIANA
MOSS BLUFF, LOUISIANA**

**COMPARATIVE STATEMENTS OF
REVENUES AND EXPENSES
FOR THE YEARS ENDED
JUNE 30, 1996 THRU 1986**

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
Operating Revenue					
Water Sales	1,062,453	942,400	832,705	796,650	754,978
Service	103,583	69,211	48,220	47,014	32,888
Total	<u>1,166,036</u>	<u>1,011,611</u>	<u>880,925</u>	<u>843,664</u>	<u>787,866</u>
Operating Expenses:					
Production and Distribution (A)	564,634	536,816	504,534	522,311	408,470
General and Administrative	286,043	274,602	264,989	277,292	272,303
Total	<u>850,677</u>	<u>811,418</u>	<u>769,523</u>	<u>499,603</u>	<u>680,773</u>
Net Income (Loss) from operations	315,359	200,193	111,402	44,061	107,093
Non-Operating Revenue and (expenses):					
Interest & Taxes	258,722	232,488	219,870	222,237	218,911
Miscellaneous	16,292	18,945	42,056	38,856	34,586
Interest Expense	(268,607)	(236,962)	(249,602)	(234,593)	(282,186)
Grant	--	-0-	-0-	-0-	14,209
Total	<u>6,407</u>	<u>14,471</u>	<u>12,324</u>	<u>26,500</u>	<u>(14,480)</u>
Net Income (Loss)	<u>321,766</u>	<u>214,664</u>	<u>123,726</u>	<u>70,561</u>	<u>92,613</u>
Customers (active)	5,065	4,695	4,500	4,360	4,146
Customer increase	370	195	140	214	111
Water Consumption in thousand gallons	478,605	426,994	410,381	369,359	381,012

(A) Includes Depreciation

SCHEDULE 7

<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>
757,689	729,384	728,736	693,059	638,692	575,979
22,166	33,937	25,038	40,342	37,509	36,193
<u>779,855</u>	<u>763,321</u>	<u>753,774</u>	<u>733,401</u>	<u>676,201</u>	<u>612,172</u>
437,120	460,825	425,454	407,240	392,155	404,675
249,046	257,544	238,655	223,006	214,645	204,606
<u>686,166</u>	<u>718,369</u>	<u>664,109</u>	<u>630,246</u>	<u>606,800</u>	<u>609,281</u>
93,689	44,952	89,665	103,155	69,401	2,891
181,023	182,084	186,120	218,829	207,665	215,662
23,186	19,176	23,759	9,328	11,338	8,051
(295,887)	(303,579)	(317,149)	(311,679)	(324,262)	(356,853)
-0-	-0-	-0-	71,671	-0-	-0-
<u>(91,678)</u>	<u>(102,319)</u>	<u>(107,270)</u>	<u>(11,851)</u>	<u>(105,259)</u>	<u>(133,140)</u>
<u>2,011</u>	<u>(57,367)</u>	<u>(17,605)</u>	<u>91,304</u>	<u>(35,858)</u>	<u>(130,249)</u>
4,035	3,875	3,725	3,688	3,511	3,380
160	150	35	177	131	59
456,630	384,336	352,602	332,314	318,726	423,634

The accompanying notes are integral to these financial statements

STEIRMAN, WHITFIELD AND CO., P.C.

A Corporation of
CERTIFIED PUBLIC ACCOUNTANTS

JOEL E. STEIRMAN, CPA
JANE M. WHITFIELD, CPA

P. O. Box 2069 • 109 WEST CAMELLIA
ORANGE, TEXAS 77630

TELE (409) 883-3350
FAX (409) 883-7904

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Board of Commissioners
Water Works District No. 1, Ward 1
Calcasieu Parish, Louisiana
Lake Charles, Louisiana

We have audited the general purpose financial statements of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, as of and for the year ended June 30, 1996, and have issued our report thereon dated December 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, "*Government Auditing Standards*," issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, "*Audits of State and Local Governments*." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, is the responsibility of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the District's Board of Commissioners. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Steirman, Whitfield and Co., PC
Steirman, Whitfield, and Co. PC
Certified Public Accountants
December 25, 1996

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

STEIRMAN, WHITFIELD AND CO., P.C.

A Corporation of
CERTIFIED PUBLIC ACCOUNTANTS

JOEL E. STEIRMAN, CPA
JANE M. WHITFIELD, CPA

P. O. Box 2069 • 109 WEST CAMELLIA
ORANGE, TEXAS 77630

TELE (409) 883-3350
FAX (409) 883-7904

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Board of Commissioners
Water Works District No. 1, Ward,
Calcasieu Parish, Louisiana

We have audited the general purpose financial statements of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana as of and for the year ended June 30, 1996, and have issued our report thereon dated December 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, "*Government Auditing Standards*," issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-128, "*Audits of State and Local Governments*." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

In planning and performing our audit of the general-purpose financial statements of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, for the year ended June 30, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure.

The management of Water Works District No. 1, Ward 1, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies

and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: Cash and cash equivalents; Goods and Services and related liabilities; Payroll and related liabilities; fund equity; Fixed assets; Debt; and Revenues and related receivables.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We noted no matters involving the internal control structure and its operation that we believed to be a material weakness as described above.

We did note other matters involving the internal control structure and its operation that we have reported to the management of Water Works District No. 1, Ward 1, in a separate letter dated December 25, 1996.

This report is intended for the information of the audit committee, management, and Board of Commissioners. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Steirman, Whitfield and Co., PC

Steirman, Whitfield, and Co. PC

Certified Public Accountants

December 25, 1996

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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Board of Commissioners
Water Works District No. 1, Ward 1,
Calcasieu Parish, Louisiana

In planning and performing our audit of the general purpose financial statements of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana for the year ended June 30, 1996 and 1995, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted no reportable conditions that we believe to be material weaknesses.

Prior Year's Findings--

Finding 1:

Condition: The District's funds on deposit at the Calcasieu Marine Bank were not adequately collateralized as required.

Criteria: Each bank accepting deposits of state and local political sub-divisions of the State of Louisiana are required to collateralize those deposits with certain securities.

Recommendation: That the District's Superintendent insure that the actual cash deposits are fully collateralized at each bank holding deposits (time or demand) with acceptable securities. Further, the fact of that all of the funds are properly collateralized should be reported to and reviewed by the governing board each month.

Observation during current audit: The District had instituted a monthly procedure of reconciling the pledged collateral at fair market value with the book balances at each bank during the year

Finding 2:

Condition: The customer deposits subsidiary ledger did not reconcile to the general ledger control account.

Criteria: The list of individual customer deposits should agree with deposits shown on the financial statements and with cash restricted for that purpose.

Cause: Customer deposits that were being transferred from one service (address) to another were not being removed from the former residence.

Recommendation: Each customer transfer should start with deleting the deposit on the former residence and then posting the deposit to the new location. Additionally, the computer program should be changed to produce a report that lists all customer deposit deletions, additions, and changes. This report should then be used to reconcile the customer deposits each month between the total of the computerized customer deposits and the general ledger and the restricted cash account used to control customer deposits.

Observation during current audit: The District instituted several manual procedures in an effort to reconcile the customer deposits general ledger account with the computerized ledger of the billing and collection system. Their procedures did not achieve the desired result as explained in the finding below for the current period.

Current Year's Findings--

Finding 1:

Condition: The customer deposits subsidiary ledger did not reconcile to the general ledger control account.

Criteria: The list of individual customer deposits should agree with deposits shown on the financial statements and with cash restricted for that purpose.

Cause: The specific cause was not determinable.

Recommendation: The computer program should be changed to produce a report that lists all customer deposit deletions, additions, and changes. This report should then be used to reconcile the customer deposits each month between the total of the computerized customer deposits and the

general ledger and the restricted cash account used to control customer deposits. **If the computer program can not be modified as recommended then the District should consider obtaining and installing a more reliable computer program.**

This report is intended solely for the information and use of the Board of Commissioners of the Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana, management, and others within the administration. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Steirman, Whitfield and Co., PC

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Certified Public Accountants

December 25, 1996

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JOEL E. STEIRMAN, CPA
JANE M. WHITFIELD, CPA

P. O. BOX 2069 • 109 WEST CAMELLIA
ORANGE, TEXAS 77630

TELE (409) 883-3350
FAX (409) 883-7904

February 18, 1997

Legislative Auditor
Attention: Grover Austin
State of Louisiana
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

We have mailed under separate cover seven bound and one unbound copies of Water Works District No. 1, Ward 1, Calcasieu Parish, Louisiana's audited financial statements for the year ended June 30, 1996. This letter is to address the attached communication sent jointly to the Water Works District No. 1, Ward 1 of Calcasieu Parish and this Firm.

The subject financial statements, compliance reports, nor the management letter make no mention of the failure to file the Statements within the six months requirement. The Statements were audited prior to the suspense and should have been sent prior to December 31, 1996, but they were not. The Finding will be included in the following year's compliance report and management letter.

The basis for this non-compliance is entirely the Independent Auditor's responsibility and should not bear adversely on the District. The Auditor had mitigating circumstances that were not foreseeable nor avoidable. The firm had to delay its Peer Review for the same cause. Please consider the following as explanation for the situation. The firm experienced extreme hardship due to multiple family illnesses from July to present. Accommodations have been made to insure that current and future work will not be affected by the situation.

Normally, the Independent Auditor has submitted the annual audited financial statements by October 31 in each of the prior years.

Because of the unanticipated nature of the situation and the lack of problems in the past we request that this incident does not adversely affect our privilege to audit governmental entities in Louisiana. We fully understand that failure to perform in accordance with professional standards and to submit timely reports are grounds for the Legislative Auditor not to approve a firm's engagement.

We wish you to understand that the firm has had two Peer Reviews performed under the Private Companies Practice Section of the AICPA. Both Reviews resulted in Unqualified (clean) Reports.

The first was a category 2 and the last was a category 1. Since the first Review did have a letter of comments, although the comments were minor, we made a commitment to do better. As a result the next review resulted in no letter comments. The firm makes the same commitment as to this situation. We will take those measures necessary to insure that all of our clients engagements are completed as agreed upon.

Please accept our appreciation in advance for your assistance in this matter.

Professionally yours,



Joel E. Steirman, CPA (LA, TX)

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