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SOUTH VERNON WATERWORKS DISTRICT NO. 1

FINANCIAL STATEMENTS

December 31, 2003

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 8/18/04

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# ELLIOTT & ASSOCIATES, INC.

*A Professional Accounting Corporation*

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W. Micheal Elliott, CPA

## UNQUALIFIED OPINION ON GENERAL-PURPOSE FINANCIAL STATEMENTS-GOVERNMENTAL ENTITY

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
South Vernon Waterworks District No. 1  
Rosepine, Louisiana

I have audited the accompanying general-purpose financial statements of the South Vernon Waterworks District No. 1, a component unit of the Vernon Parish Police Jury, as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the South Vernon Waterworks District No. 1's management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2003, 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*, I have also issued a report dated June 29, 2004 on my consideration of the South Vernon Waterworks District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Elliott & Assoc. "APAC"*

Leesville, Louisiana  
June 29, 2004

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

Board of Commissioners  
South Vernon Waterworks District No. 1  
Rosepine, Louisiana

I have audited the financial statements of the South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2003, and have issued my report thereon dated June 29, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the South Vernon Waterworks District No. 1's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, the 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that are required to be reported under *government Auditing Standards*.

2003.1- Finding- During the year ended December 31, 2003, the District was delinquent in paying its scheduled debt service to the USDA; this is a violation of Louisiana R.S.39:569.1 because the District did not notify the Legislative Auditor of its loan default.

### Management Response

The District's Board met with the Fiscal Review Committee of the Louisiana State Bond Commission and USDA officials over a three month period from November 2003 through February 2004 and are still negotiating a rescheduling of its delinquency over the original mortgage period. Furthermore, the District is required to submit quarterly financial statement data to the State Bond Commission effective with the 1<sup>st</sup> quarter ended, March 31, 2004.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the South Vernon Waterworks District No. 1's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

This report is intended solely for the information of the Board of Directors and management of the South Vernon Waterworks District and the Legislative Auditor's office of the State of Louisiana. This report is not intended to be, and should not be, used by anyone other than these specified parties.

*Elliott & Assoc. "APAC"*  
Leesville, Louisiana  
June 29, 2004

South Vernon Waterworks District No. 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended December 31, 2003

I have audited the financial statements of South Vernon Waterworks District No. 1 as of and for the year ended December 31, 2003, and have issued my report thereon dated June 29, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of December 31, 2003 resulted in an unqualified opinion.

**Section I Summary of Auditor's Reports**

a. *Report on Internal Control and Compliance  
Material to the Financial Statements*

Internal Control

Material Weaknesses ( ) Yes (X) No  
Reportable Conditions ( ) Yes (X) No

Compliance

Compliance Material to Financial  
Statements (X) Yes ( ) No

b. *Federal Awards*

Internal Control

Material Weaknesses ( ) Yes ( ) No (X) N/A  
Reportable Conditions ( ) Yes ( ) No (X) N/A

Type of Opinion On Compliance For Major Programs

Unqualified ( ) Qualified ( )  
Disclaimer ( ) Adverse ( )  
N/A (X)

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)?

( ) Yes ( ) No (X) N/A



South Vernon Waterworks District No. 1

Balance Sheet

December 31, 2003

ASSETS

Current assets:	
Cash (Note 2)	\$ 20,118
Accounts receivable, net of allowance (Note 3)	17,534
State revenue sharing receivable (Note 3)	---
Ad valorem taxes receivable (Note 3)	<u>33,461</u>
Total current assets	<u>71,113</u>
Restricted:	
Cash (Note 2)	104,236
Ad valorem taxes receivable (Note 3)	<u>46,138</u>
Total restricted assets	<u>150,374</u>
Organization costs (Note 4)	59,772
Less: accumulated amortization	<u>(59,772)</u>
Organization costs (net of accumulated amortization)	<u>---</u>
Fixed assets (Notes 5 and 8)	3,349,383
Less: accumulated depreciation	<u>(587,108)</u>
Fixed assets (net of accumulated depreciation)	<u>2,762,275</u>
Total assets	<u>\$2,983,762</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND EQUITY

Current liabilities:	
Sales taxes payable	\$ 22
Accounts payable	3,396
Pension deduction payable-unrestricted	749
Payroll taxes payable	<u>882</u>
Total current liabilities	<u>5,049</u>
Current liabilities payable from restricted assets:	
Pension deduction payable restricted	992
Current maturities - general obligation bonds (Note 6)	15,000
Current maturities - USDA Rural Development revenue bonds (Note 6)	33,953
Accrued interest payable (Note 6)	57,238
Meter deposits	<u>13,573</u>
Total current liabilities payable from restricted assets	<u>120,756</u>
Long-term liabilities payable from restricted assets:	
USDA Rural Development revenue bonds (Note 6)	2,732,913
General obligation bonds (Note 6)	<u>212,000</u>
Total long-term liabilities payable from restricted assets	<u>2,944,913</u>
Total liabilities	<u>3,070,718</u>
Equity:	
Contributed capital, net (Note 8)	<u>453,813</u>
Retained earnings:	
Reserved for meter deposits	(2,839)
Unreserved-undesignated (Note 9)	<u>(537,876)</u>
Total retained earnings (deficit)	<u>(540,769)</u>
Total equity	<u>(86,956)</u>
Total liabilities and equity	<u>\$2,983,762</u>

Exhibit B

South Vernon Waterworks District No. 1  
Statement of Revenues, Expenses, and Changes in Retained Earnings  
For the year ended December 31, 2003

Operating revenues:	
Charges for sales and services:	
Water sales	\$ 198,535
Total operating revenues	<u>198,535</u>
Operating expenses:	
Current:	
Bank fees	1,013
Licenses and permits	3,300
Chemicals	8,148
Salaries and related costs	60,491
Rent expense	3,900
Insurance expense	15,585
Payroll expenses	2,959
Board per diem	3,720
Advertising	90
Phone & utilities	12,713
Materials and supplies	6,137
Depreciation and amortization (Notes 4 and 5)	85,424
Repairs and maintenance	7,589
Bad debt expense	16,500
Miscellaneous expense	<u>14,090</u>
Total operating expenses	<u>241,659</u>
Operating income (loss)	<u>(43,124)</u>
Nonoperating revenues (expenses):	
Interest income	1,683
Interest expense (Note 6)	(210,901)
State revenue sharing	10,065
Ad valorem taxes-restricted (Note 3)	32,842
Ad valorem taxes-unrestricted (Note 3)	25,263
Miscellaneous (Note 10)	<u>54,360</u>
Total nonoperating revenues (expenses)	<u>(86,688)</u>
Net loss	(129,812)
Retained earnings (deficit), beg. balance (Note 9)	<u>(410,957)</u>
Retained earnings (deficit), ending (Note 9)	<u>\$ (540,769)</u>

The accompanying notes are an integral part of this statement.

South Vernon Waterworks District No. 1  
Statement of Cash Flows  
For the year ended December 31, 2003

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating income	\$ ( 43,124)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	85,424
Amortization	
Changes in assets and liabilities:	
Accounts receivable	1,644
Allowance for doubtful accounts	---
Accounts payable	(3,401)
Other current liabilities	(4,445)
Customer deposits	
Retirement deductions payable	<u>( 1)</u>
Net cash (used) by operating activities	<u>36,098</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Ad valorem taxes	<u>38,923</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Ad valorem taxes	28,711
Acquisition of property, plant and equipment	( 7,005)
Repayment of indebtedness	17,605
Miscellaneous income	54,360
Interest paid	<u>( 170,876)</u>
Net cash (used) by capital financing activities	<u>( 77,205)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>1,683</u>
Increase in cash	(501)
CASH, BEGINNING OF YEAR	<u>124,855</u>
CASH, END OF YEAR	<u>124,354</u>
<b>CLASSIFIED AS</b>	
Current Assets	\$ 20,118
Restricted Assets	<u>104,236</u>
Totals	<u>\$ 124,354</u>

The accompanying notes are an integral part of this statement.

South Vernon Waterworks District No. 1

Notes to the Financial Statements

December 31, 2003

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Vernon Parish Police Jury is a political subdivision of the State of Louisiana. The Vernon Parish Police Jury is the reporting entity for Vernon Parish as defined by NCGA Statement 3, "Defining the Governmental Reporting Entity."

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governments. In November of 1984, the GASB issued a codification of governmental accounting and financial reporting standards. This codification is recognized as generally accepted accounting principles for state and local governments.

South Vernon Waterworks District No. 1, "District," is a component unit of the Vernon Parish Police Jury as defined by GASB codification Section 2100. The District was created by the Vernon Parish Police Jury as authorized by Louisiana Revised Statutes 33:3811-21. The District is governed by a board of five commissioners appointed by the Vernon Parish Police Jury, who are responsible for providing water service within the boundaries of the district.

A. FUND ACCOUNTING

South Vernon Waterworks District No. 1 is organized and operated on a fund basis as a Proprietary Fund Type-Enterprise Fund. In an enterprise fund the accrual basis of accounting is utilized and revenues are recognized when earned and expenses are recognized when incurred. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets associated with the operation of these funds are included on the balance sheet. Fund equity, (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

C. BAD DEBTS

Uncollectible amounts due for ad valorem taxes and water sales are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

D. CASH AND CASH EQUIVALENTS

Cash includes amounts in petty cash, demand deposits, interest earning demand deposits, and money market accounts. Cash equivalents include amounts in time deposits, with maturities of three months or less.

E. FIXED ASSETS

The fixed assets of the waterworks district are accounted for on the balance sheet of the Enterprise Fund. The fixed assets of the District as shown on the balance sheet are recorded at historical cost. Depreciation is computed by the straight line method based on the estimated useful life of the individual assets.

F. INTEREST EXPENSE

The District expenses interest as it is incurred for accounting purposes and has not capitalized any previous interest expense.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 2--CASH AND INVESTMENT COLLATERAL

Under state law, the District may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in United States bonds, treasury notes, time certificates of deposit of any bank domiciled or having a branch office in the State of Louisiana, investments as stipulated in state law, or any other federally insured investment.

At December 31, 2003, the District had cash and investments as follows:

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Cash (demand deposits)	<u>\$20,118</u>	<u>\$104,236</u>	<u>\$124,354</u>

At year end, the carrying amount of the District's deposits (demand deposits and certificates of deposit) were \$124,354 and the bank balances were \$143,661. A summary of collateralization of bank balances is presented below.

Insured (Federal deposit insurance)	\$100,000
Uncollateralized (In accordance with GAAP - See below)	<u>43,661</u>
	<u>\$143,661</u>

These deposits are stated at cost, which approximates market. 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 at least equal the amount on deposit with the fiscal agent.

The uncollateralized amount shown above is secured by pledged securities with a market value of \$ 58,414 held in the name of the pledging fiscal agent banks in holding or custodial banks. Even though the pledged securities are considered uncollateralized under GAAP, Louisiana Revised Statutes impose 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.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 3--RECEIVABLE

Receivables at December 31, 2003 consist of the following:

Ad valorem taxes--unrestricted	\$33,461
Ad valorem taxes--restricted	46,138
Water sales, net of allowance of \$10,454	17,534
State revenue sharing	---
Total	<u>\$97,133</u>

The amount included in the ad valorem receivable on the balance sheet is for ad valorem taxes which attach as an enforceable lien on property as of January 1 of each year. Taxes are levied to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The District utilizes the Vernon Parish Sheriff's Office to collect its property taxes using the assessed values determined by the tax assessor of Vernon Parish.

For the year ended December 31, 2003, taxes of 10.00 mils and 13.25 mils were levied on property with assessed valuation totaling \$2,550,770 and was dedicated toward operations and maintenance and the sinking fund, respectively.

For the year ended December 31, 2003 total taxes levied were \$59,306. The receivable at December 31, 2003 consisted entirely of the current year assessment. Total collections and other adjustments resulted in total ad valorem revenue of \$58,105.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 4--ORGANIZATION COSTS

Amortization of organization costs is computed on the straight-line method over five years. The breakdown of organization costs and accumulated amortization is as follows:

Balance, December 31, 2002	\$59,772
Less: Accumulated amortization	<u>(59,772)</u>
Balance, December 31, 2003	<u>\$ ---</u>

Amortization expense for the year ended December 31, 2003, was Zero.

NOTE 5--FIXED ASSETS

The following represents changes in fixed assets for the year ended December 31, 2003 :

	<u>Balance,</u> <u>12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance,</u> <u>12/31/03</u>
Land	\$ 15,000	\$ ---	\$ ---	\$ 15,000
Autos and trucks	16,219	6,450	---	22,669
Office equipment and fixtures	19,188	556	---	19,744
Water system	<u>3,291,970</u>	<u>---</u>	<u>---</u>	<u>3,291,970</u>
Total	<u>\$3,342,377</u>	<u>\$ 7,006</u>	<u>\$ ---</u>	<u>\$3,349,383</u>

Depreciation expense for the year ended December 31, 2003, was \$85,424.

NOTE 6--GENERAL LONG-TERM DEBT

Bonds payable activity for the year ended December 31, 2003 was as follows:

Bonds payable, December 31, 2002	\$241,000
Bonds issued	---
Bonds retired	<u>(14,000)</u>
Bonds payable, December 31, 2003	<u>\$227,000</u>

The above represents an original \$318,000 in general obligation bonds dated May 1, 1994; due in annual installments of \$1,000-\$28,500 through 2024; interest at 5.40%-9.00%.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 6--GENERAL LONG-TERM DEBT (Continued)

USDA Rural Development Revenue Bonds payable activity for the year ended December 31, 2003 was comprised as follows:

	FHA Rev. Bonds	FHA Rev. Bonds Series A	Totals
Balance at 12/31/02	\$2,653,825	\$ 85,807	\$2,739,632
Additions	---	---	---
Payments	<u>( 5,303)</u>	<u>(1,416)</u>	<u>(6,719)</u>
Balance at 12/31/03	<u>\$2,648,522</u>	<u>\$ 84,391</u>	<u>\$2,732,913</u>

The USDA Rural Development Revenue Bonds are being paid in a monthly payment of \$13,098 including principal and interest at 4.875%. The USDA Rural Development Revenue Bonds Series A are being paid in a monthly payment of \$435 including principal and interest at 4.875%

During the year ended December 31, 2003, the District did not pay all of its required debt service on the larger debt issue; this delinquency (amount not determined by USDA yet) is to be paid through a rescheduling agreement between USDA and the District which has not been finalized yet.

The annual requirements to amortize all revenue and general obligation bonds outstanding as of December 31, 2003, including interest payments of \$2,093,293, are as follows:

2004	\$ 190,568
2005	189,707
2006	189,804
2007	183,834
2008-2012	189,797
2013-2017	870,975
2018-2022	818,426
2023-2027	814,145
2028-2032	812,020
2033-2036	<u>566,930</u>
Total	<u>\$4,826,206</u>

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 7--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance as outlined in the following table. Settled claims did not exceed commercial coverage for any of the past three fiscal years.

	LIMITS OF COVERAGE
Workmen's compensation	statutory
Auto liability	\$ 500,000
Commercial general liability	1,000,000
District-owned buildings and equipment	711,000

The District covers all other losses, claim settlements, and judgments from operating resources. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The District was not involved in any litigation nor did it have asserted claims lodged against it.

NOTE 8--CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended December 31, 2003 were as follows:

Balance at December 31, 2002	\$453,813
Additions	---
Amortization	---
	<hr/>
Balance at December 31, 2003	<u>\$453,813</u>

NOTE 9--RETAINED EARNINGS DEFICIT

The District has an unreserved - undesignated deficit of \$537,876 at December 31, 2003. The District was awarded a \$562,719 CDBG grant in 1999 to expand its system, and this grant was only recently funded in June 2002. Bids were solicited in June 2002 and a contractor was selected in July 2002 to begin construction of new water lines in order to increase the District's customer base by approximately 250 customers. These customers began paying for water services in early 2004 to the District and the District feels with these additional customers, they can improve their financial condition in 2004.

South Vernon Waterworks District No. 1

Notes to the Financial Statements (Continued)

NOTE 10 Miscellaneous Income

In January 2002, the District discovered that its former office secretary had embezzled funds over a period of time including the year 2001 and possibly previous years. The amount of loss and other associated costs were determined to be \$54,359.

This amount was collected in 2003 and recorded as other income because this income was stolen in prior years and was never originally recorded as water sales.

SUPPLEMENTARY INFORMATION

South Vernon Waterworks District No. 1  
COMPENSATION OF BOARD MEMBERS  
For the year ended December 31, 2003

The schedule of per diem paid to board members was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 session of the Legislature.

As provided by Louisiana Revised Statute 33:4564, District board members received \$60 per diem for attendance at meetings of the board in 2003.

	<u>Number Attended</u>	<u>Amount</u>
Barbara Bartlett	13	\$ 780
Bill Churchman	13	780
Mack Davis	12	720
Deborah Dixon	11	660
Marian Van Tassel	<u>13</u>	<u>780</u>
Total	<u>62</u>	<u>\$ 3,720</u>

See independent auditor's report.

South Vernon Waterworks District No. 1  
SCHEDULE OF PRIOR YEAR FINDINGS  
For the Fiscal Year Ended December 31, 2003

**SECTION I            INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE  
FINANCIAL STATEMENTS**

There were no prior year findings relating to internal control  
And compliance material to the financial statements.

**SECTION II           INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL  
AWARDS**

There were no prior year findings relating to internal control  
and compliance material to federal awards.

**SECTION III        MANAGEMENT LETTER**

There was no management letter with prior year audit report.

See independent auditor's report.

South Vernon Waterworks District No. 1  
MANAGEMENT'S CORRECTIVE ACTION PLAN  
For the Fiscal Year Ended December 31, 2003

**SECTION I            INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE  
FINANCIAL STATEMENT**

Management Response

The District's Board met with the Fiscal Review Committee of the Louisiana State Bond Commission and USDA officials over a three month period from November 2003 through February 2004 and are still negotiating a rescheduling of its delinquency over the original mortgage period. Furthermore, the District is required to submit quarterly financial statement data to the State Bond Commission effective with the 1<sup>st</sup> quarter ended, March 31, 2004.

**SECTION II            INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL  
AWARDS**

N/A

**SECTION III           MANAGEMENT LETTER**

N/A

See independent auditor's report.