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LOUISIANA RURAL WATER ASSOCIATION, INC.  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITORS' REPORT  
Year Ended June 30, 2004

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 12-22-04

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**GRAGSON, CASIDAY & GULLORY, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS

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DAWN REDD, C.P.A.  
MELONIE L. HIMEL, C.P.A.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Louisiana Rural Water Association, Inc.  
Kinder, LA

November 30, 2004

We have audited the accompanying statement of financial position of Louisiana Rural Water Association, Inc. (a nonprofit organization), as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Rural Water Association, Inc. as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2004 on our consideration of Louisiana Rural Water Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Louisiana Rural Water Association, Inc.  
November 30, 2004

Our audit was performed for the purpose of forming an opinion on the financial statements of Louisiana Rural Water Association, Inc., taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Gragson, Casiday & Guillory*

LOUISIANA RURAL WATER ASSOCIATION, INC.

Statement of Financial Position

June 30, 2004

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets		
Cash	\$ 515,088	\$ 646,791
Investments	126,401	143,853
Accounts receivable	375,932	202,274
Prepaid expenses	<u>30,560</u>	<u>58,039</u>
Total Current Assets	1,047,981	1,050,957
Fixed assets, at cost (net of accumulated depreciation of \$355,803 for 2004 and \$295,157 for 2003)	<u>778,399</u>	<u>765,174</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,826,380</u></b>	<b><u>\$ 1,816,131</u></b>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 60,864	\$ 128,737
Deferred income	137,565	167,445
Vacation and sick leave payable	270,746	229,889
Note payable	<u>443,338</u>	<u>358,016</u>
Total Current Liabilities	912,513	884,087
Net Assets		
Unrestricted	<u>913,867</u>	<u>932,044</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,826,380</u></b>	<b><u>\$ 1,816,131</u></b>

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

LOUISIANA RURAL WATER ASSOCIATION, INC.

Statement of Activities

Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	<u>Totals</u>	
			<u>2004</u>	<u>2003</u>
<b>REVENUES AND RECLASSIFICATIONS</b>				
Grants	\$ 1,555,978	\$ -	\$ 1,555,978	\$ 1,570,794
Membership fees	190,825	-	190,825	144,900
Conference income	201,532	-	201,532	166,980
Training income	63,278	-	63,278	35,717
Advertising income	25,402	-	25,402	22,845
Interest income	7,945	-	7,945	20,315
Other income	73,538	-	73,538	43,759
Net Assets Released from Restrictions:				
Satisfaction of program restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Revenues and Reclassifications	<u>2,118,498</u>	<u>-</u>	<u>2,118,498</u>	<u>2,005,310</u>
 <b>EXPENSES</b>				
General and administrative	472,668	-	472,668	457,452
Federal program subsidies	47,270	-	47,270	27,197
Program services:				
E.P.A.	113,844	-	113,844	107,349
Circuit rider – National Rural Water	284,020	-	284,020	298,480
Circuit rider – State Revolving Funds	84,312	-	84,312	90,670
Wastewater – DEQ	146,046	-	146,046	337,856
Wastewater – National Rural Water	315,038	-	315,038	288,293
Groundwater	110,828	-	110,828	101,278
Energy	218,638	-	218,638	214,909
Compliance initiative	103,857	-	103,857	103,417
Lake Pontchartrain Basin Foundation	-	-	-	17,685
Community development block grant	38,459	-	38,459	26,965
Capacity development	66,983	-	66,983	69,298
Drinking water – EPA	9,579	-	9,579	-
Drinking water – USDA	18,343	-	18,343	-
Security vulnerability	<u>106,790</u>	<u>-</u>	<u>106,790</u>	<u>-</u>
Total Expenses	<u>2,136,675</u>	<u>-</u>	<u>2,136,675</u>	<u>2,140,849</u>
 Increase (decrease) in Net Assets	 (18,177)	 -	 (18,177)	 (135,539)
 NET ASSETS - BEGINNING OF YEAR	 <u>932,044</u>	 <u>-</u>	 <u>932,044</u>	 <u>1,067,583</u>
 NET ASSETS - END OF YEAR	 <u>\$ 913,867</u>	 <u>\$ -</u>	 <u>\$ 913,867</u>	 <u>\$ 932,044</u>

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

GRAGSON, CASIDAY & GUILLORY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

LOUISIANA RURAL WATER ASSOCIATION, INC.

Statement of Cash Flows

Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (18,177)	\$ (135,539)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	60,646	56,052
Unrealized (gain) loss on investments	2,988	(1,324)
(Increase) Decrease in assets		
Accounts receivable	(173,658)	(62,259)
Prepaid expenses	27,479	(3,618)
Increase (Decrease) in liabilities		
Accounts payable	(67,873)	42,408
Deferred income	(29,880)	36,205
Vacation and sick leave payable	<u>40,857</u>	<u>18,829</u>
Net cash from operating activities	<u>(157,618)</u>	<u>(49,246)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of noncash equivalents	59,680	-
Proceeds from debt borrowings	95,997	358,016
Proceeds from sale of investments and noncash equivalents	14,464	-
Purchase of investments and noncash equivalents	-	(18,614)
Purchase of fixed assets	(73,871)	(447,420)
Payments on debt borrowings	<u>(10,675)</u>	<u>(76,014)</u>
Net cash used by investing activities	<u>85,595</u>	<u>(184,032)</u>
Net increase (decrease) in cash equivalents	(72,023)	(233,278)
Cash equivalents - Beginning of year	<u>477,966</u>	<u>711,244</u>
Cash equivalents - End of year	<u>\$ 405,943</u>	<u>\$ 477,966</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 28,852</u>	<u>\$ 9,635</u>

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

GRAGSON, CASIDAY & GUILLORY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association was formed in 1978 to provide training and technical assistance to rural water and wastewater systems throughout Louisiana.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, Louisiana Rural Water Association, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenues

Revenues are derived primarily from federal and state grants and from membership fees. Grants are summarized as follows:

E.P.A. - To provide training and technical assistance to rural and small public water supply systems. Revenue of \$101,734 was recognized in the current year. Current grant agreement runs through April 30, 2007.

Circuit Rider – National Rural Water Association, Inc. - To provide technical assistance to systems servicing rural areas or cities/towns with a population under 10,000. Revenue of \$296,006 was recognized in the current year. Current grant agreement runs through October 31, 2007.

Circuit Rider – State Revolving Funds – To provide technical assistance to systems servicing rural areas or cities/towns with a population under 10,000. Revenue of \$66,257 was recognized in the current year. Current grant agreement runs through April 30, 2005.

Wastewater-DEQ - To provide technical assistance to rural and small wastewater systems. Revenue of \$150,000 was recognized in the current year. Funding was a one-time donation from the State Department of Environmental Quality.

Wastewater - National Rural Water Association, Inc. - To provide technical assistance to "Rural Development Administration" funded and potentially funded wastewater systems. Revenue of \$288,996 was recognized in the current year. Current grant agreement runs through June 17, 2005.



LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Groundwater - To provide technical assistance to rural and small public water suppliers in the formation of groundwater protection plans. Revenue of \$96,332 was recognized in the current year. Current grant agreement runs through June 30, 2005.

Energy - "Rural Water Energy Conservation Program". Revenue of \$206,386 was recognized in the current year. Current grant agreement ran through June 30, 2004.

Louisiana Compliance Initiative - To provide training and technical assistance in compliance with drinking water regulations. Revenue of \$103,033 was recognized in the current year. Current grant agreement runs through January 31, 2006. \$29,970 has been invested in a certificate of deposit as required by the agreement.

Lake Pontchartrain Basin Foundation - To provide technical assistance to wastewater systems in the Florida parishes of Louisiana. Revenue of \$0.00 was recognized in the current year. Current grant agreement ran through July 31, 2002.

Community Development Block Grant (LCDBG) - To provide training and technical assistance to LCDBG recipients who have been funded for water or sewer system improvements. Revenue of \$36,818 was recognized in the current year. Current grant agreement ran through March 31, 2004.

Capacity Development - To provide eight four-hour training sessions per year to public water systems. Revenue of \$64,902 was recognized in the current year. Current grant agreement runs through June 30, 2006.

Drinking Water –EPA- To provide training and technical assistance to implement federal drinking water grant. Revenue of \$8,028 was recognized in the current year. Current grant agreement runs through April 30, 2007.

Drinking Water –USDA- To provide training and technical assistance to implement federal drinking water grant. Revenue of \$16,696 was recognized in the current year. Current grant agreement runs through March 31, 2005.

Security Vulnerability- To provide vulnerability assessment and to create an emergency response plan. Revenue of \$106,790 was recognized in the current year. Current grant agreement ran through May 31, 2004.

LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Very small water system - To provide training for very small water system's operators. Revenue of \$14,000 was recognized in the current year. Current grant agreement runs through April 30, 2006.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable at June 30, 2004 of \$375,932 represents receivables from the federal and state grants.

Deferred Income

Grant funds received from the grantor for particular operating purposes are deemed to be earned and reported as revenues when the Association has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred amounts.

Cash

Cash includes amounts in demand deposits. The Association's policy is to secure required collateral to safeguard all of the financial instruments. At June 30, 2004, the carrying amount was \$515,088 and the bank balance was \$566,391. Of the bank balance, \$200,000 was covered by federal depository insurance and government securities and the remainder of \$366,391 was collateralized by pledged securities.

Investments

Investments are composed of mutual funds investing in debt and equity securities and are carried at fair value. The fair value is obtained from monthly investment statements. Investments as of June 30, 2004 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Liberty Mutual Fund for U.S. Government Securities	<u>\$ 136,734</u>	<u>\$ 126,401</u>	<u>\$ 126,401</u>

LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following summarizes the investment return:

Interest earned	\$ 5,537
Unrealized loss	<u>(2,988)</u>
Net investment return	<u>\$ 2,549</u>

Vacation and Sick Leave Policies

The Association's vacation policy permits 10 days after one year of service and 15 days after five years of service. Accrued vacation must be taken within one year. Employees are paid for unused vacation days upon termination of employment. Accrued vacation payable is recorded at \$41,794 at June 30, 2004.

The Association's sick leave policy permits the accumulation of one day per month up to a maximum of 120 days. Employees are not paid for unused sick days upon termination of employment. Accrued sick leave is recorded at \$228,952 at June 30, 2004.

The Association has received permission from its federal grantor agency to accrue funded vacation and sick leave benefits. The federal programs fund the accruals to accumulate funds to pay for terminations and long-term illnesses of employees paid from those programs. The accrual cannot be more than the legal liability for those programs.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Reconciliation of cash and cash equivalents at June 30, 2004 is as follows:

Cash Equivalents	\$ 405,943
Noncash Equivalents	<u>109,145</u>
Total Cash	<u>\$ 515,088</u>

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as restricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction

LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

NOTE B - FIXED ASSETS

A summary of fixed assets follows:

Building and land	\$ 692,462
Equipment	<u>441,740</u>
	1,134,202
Less accumulated depreciation	<u>355,803</u>
	<u>\$ 778,399</u>

Fixed Assets are stated at cost. Depreciation is provided over the estimated useful lives, ranging from 5 to 31 years, of the respective assets calculated on the straight line method. Depreciation expense for the year ended June 30, 2004 was \$60,646.

The total amount of interest capitalized for the year ended June 30, 2004 was \$3,004.

NOTE C - NOTE PAYABLE

Note payable at June 30, 2004 consisted of the following:

Note payable to Jeff Davis Bank dated July 21, 2003, payable on demand or in 59 monthly installments of \$3,320., with a balloon payment of \$390,429 including variable interest at 6.25%, maturity of July 21, 2008, collateralized by real estate \$ 443,338

The maturities for the next five years are as follows:

June 30, 2005	\$ 12,485
June 30, 2006	13,288
June 30, 2007	14,143
June 30, 2008	14,984
June 30, 2009	388,438

LOUISIANA RURAL WATER ASSOCIATION, INC.

Notes to Financial Statements

June 30, 2004

NOTE D - FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE E - CONTINGENCIES

The Association receives a substantial amount of its support from federal and state government grants. A significant reduction in the level of this support, if this were to occur, may have an effect on the programs and activities.

NOTE F - INCOME TAXES

The Association is exempt from federal income taxes under the provision of Section 501(c)(6) of the Internal Revenue Code.

NOTE G – RETIREMENT PLAN

The Association has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the Association contributes seven percent of each eligible employee's salary. Employees may contribute up to fifteen percent, but must contribute at least three percent, of each eligible employee's salary. Plan expenses incurred by the Association for the year ended June 30, 2004 was \$57,505.

NOTE H – COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

LOUISIANA RURAL WATER ASSOCIATION, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

<u>Federal Grantor/Pass- Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Disburse- ments/ Expenses</u>
U.S. Department of Agriculture Passed through National Rural Water Association, Inc. Circuit Rider	-	53-31ME-3-0001	\$ 284,020
Passed through State Department of Health and Hospitals Circuit Rider	-	CFMS # 580043	66,257
U.S. Department of Environmental Protection Agency Passed through National Rural Water Association, Inc. Training and technical assistance	66.607	-	101,734
<u>Other Federal Awards:</u>			
U.S. Department of Agriculture Passed through National Rural Water Association, Inc. Wastewater Technical Assistance	10.761	-	288,996
Source water	66.607	-	16,697
Security vulnerability	66.478	-	106,790
Passed through State Department of Health and Hospitals Capacity development	-	CFMS #0564511	64,902
U.S. Department of Environmental Protection Agency Passed through National Rural Water Association, Inc. Ground water/wellhead protection	66.607	-	96,332
Source water	66.607	-	8,029
U.S. Department of Housing and Urban Development Passed through State Department of Community Development Training and technical assistance	14.228	-	<u>36,818</u>
<b>TOTAL FEDERAL AWARDS</b>			<b><u>\$ 1,070,575</u></b>

Continued

GRAGSON, CASIDAY & GUILLORY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

LOUISIANA RURAL WATER ASSOCIATION, INC.

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2004

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Louisiana Rural Water Association, Inc and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

LOUISIANA RURAL WATER ASSOCIATION, INC.

Schedule of General and Administrative Expenses

Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>
Advertising	\$ 764	\$ 2,546
Board members expense	2,702	15,193
Conference- other	7,090	2,435
Conference – LRWA	138,515	126,031
Depreciation	12,433	12,116
Dues	4,625	3,690
Employee benefits	328	535
Indirect expenses- Internal	124,799	91,652
Indirect expenses- unallocated excess	10,472	51,449
Interest	25,847	2,016
Miscellaneous	9,708	23,091
Newsletter	36,894	33,146
Office supplies	3,007	3,243
Professional fees	750	7,271
Public relations	9,946	10,314
Research fund contribution	3,500	3,500
Retirement	420	313
Rural water rally	18,206	18,852
Salaries	9,372	4,453
Scholarship	3,000	2,000
Taxes-payroll	1,444	973
Training	39,615	33,001
Travel	<u>9,229</u>	<u>9,632</u>
	<u>\$ 472,666</u>	<u>\$ 457,452</u>



LOUISIANA RURAL WATER ASSOCIATION, INC.

Schedule of Indirect Expenses

Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>
Board members expenses	\$ 28,007	\$ 34,196
Depreciation	-	15,243
Employee benefits	58,950	37,532
Equipment lease	14,612	15,230
Insurance	14,235	4,772
Office supplies	27,183	23,332
Postage	20,814	20,415
Professional fees	10,602	7,836
Repairs and maintenance	4,177	9,338
Retirement	9,802	16,440
Salaries	187,393	210,012
Taxes-payroll	22,932	20,783
Telephone	30,877	36,614
Training	(3,570)	-
Travel	42,406	41,949
Utilities	<u>6,591</u>	<u>4,083</u>
	<u>\$ 475,011</u>	<u>\$ 497,775</u>



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

To the Board of Directors  
Louisiana Rural Water Association, Inc.  
Kinder, LA

November 30, 2004

We have audited the financial statements of Louisiana Rural Water Association, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Louisiana Rural Water Association, Inc.'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 tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana Rural Water Association, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Louisiana Rural Water Association, Inc.  
November 30, 2004

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

*Gragson, Casiday & Guillory*



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MICHELLE BOURNE, C.P.A.  
BRADLEY J. CASIDAY, C.P.A., C.V.A.

JULIA W. PORTUS, C.P.A.  
DAWN REDD, C.P.A.  
MELONIE L. HIMEL, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Louisiana Rural Water Association, Inc.  
Kinder, LA

November 30, 2004

Compliance

We have audited the compliance of Louisiana Rural Water Association, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2004. Louisiana Rural Water Association, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Louisiana Rural Water Association, Inc.'s management. Our responsibility is to express an opinion on Louisiana Rural Water Association, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisiana Rural Water Association, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Louisiana Rural Water Association, Inc.'s compliance with those requirements.

In our opinion, Louisiana Rural Water Association, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Louisiana Rural Water Association, Inc.  
November 30, 2004

Internal Control Over Compliance

The management of Louisiana Rural Water Association, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Louisiana Rural Water Association, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance 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 does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

*Scagson, Casiday & Guillory*

LOUISIANA RURAL WATER ASSOCIATION, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

I - Summary of Auditors' Results

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses(es) identified?            \_\_\_ yes     X  no
- Reportable condition(s) identified that are  
not considered to be material weakness(es)?    \_\_\_ yes     X  none reported

Noncompliance material to financial statements noted?            \_\_\_ yes     X  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?            \_\_\_ yes     X  no
- Reportable condition(s) identified  
that are not considered to be material  
weakness(es)?            \_\_\_ yes     X  none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?            \_\_\_ yes     X  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
-	Circuit Rider
66.607	Training and Technical Assistance

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?             X  yes    \_\_\_ no

II - Financial Statement Findings

- None

III - Federal Award Findings and Questioned Costs

- None