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**LINCOLN PARISH
WATERWORKS DISTRICT #3**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 1997**

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

Release Date 4-15-98

LINCOLN PARISH WATERWORKS DISTRICT #3

FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

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INDEPENDENT AUDITOR'S REPORT

Commissioners of the Lincoln Parish
Waterworks District #3

I have audited the accompanying general purpose financial statements of Lincoln Parish Waterworks District #3, a component unit of the Lincoln Parish Police Jury, as of and for the years ended September 30, 1997 and 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of Lincoln Parish Waterworks District #3 management. My responsibility is to express an opinion on these general purpose financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits 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 financial statement presentation. I believe that my audits provide 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 Lincoln Parish Waterworks District #3 as of September 30, 1997 and 1996, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated March 26, 1998 on my consideration of Lincoln Parish Waterworks District #3's internal control structure and a report dated March 26, 1998 on its compliance with laws and regulations.



Don M. McGeehee
Certified Public Accountant
March 26, 1998

LINCOLN PARISH WATERWORKS DISTRICT #3

BALANCE SHEETS

AS OF SEPTEMBER 30, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
ASSETS		
CURRENT ASSETS		
Unrestricted		
Cash	\$ 53,568	\$ -
Investments	45,816	51,441
Accounts Receivable	17,807	16,547
Due from Other Governmental Units	600	400
Interest Receivable	558	554
Prepaid Insurance	2,247	4,488
TOTAL CURRENT ASSETS - Unrestricted	<u>120,536</u>	<u>111,308</u>
CURRENT ASSETS		
Restricted		
Cash	16,062	15,588
Investments	61,271	60,697
TOTAL CURRENT ASSETS - Restricted	<u>77,333</u>	<u>76,285</u>
PLANT AND EQUIPMENT		
Plant and Equipment - Net of Accumulated		
Depreciation of \$801,354 and \$453,546	1,387,513	1,337,575
TOTAL PLANT AND EQUIPMENT	<u>1,387,513</u>	<u>1,337,575</u>
OTHER ASSETS		
Insurance Deposit	537	411
L.P.F.A. Bond Fees, Net of		
Accumulated Amortization of \$1,816 and \$1,333	9,703	9,589
TOTAL OTHER ASSETS	<u>10,303</u>	<u>10,400</u>
TOTAL ASSETS	<u>\$ 1,615,774</u>	<u>\$ 1,543,954</u>

LINCOLN PARISH WATERWORKS DISTRICT #3
BALANCE SHEETS
AS OF SEPTEMBER 30, 1997 AND 1996

	1997	1996
LIABILITIES AND EQUITY		
CURRENT LIABILITIES (Payable from Current Assets)		
Accounts Payable	\$ 6,711	\$ 7,029
Due to Other Governmental Units	2,104	1,977
Taxes Payable	277	992
TOTAL CURRENT LIABILITIES—From Unrestricted Assets	9,092	10,000
CURRENT LIABILITIES (Payable from Restricted Assets)		
Accounts Payable – Customer Deposits	95,781	20,891
Current Maturities of Long Term Debt	18,138	16,890
Accrued Interest Payable	3,717	3,596
TOTAL CURRENT LIABILITIES—From Restricted Assets	117,636	41,377
LONG-TERM LIABILITIES		
Long-Term Debt less Current Maturities	671,921	682,314
TOTAL LIABILITIES	796,657	753,359
FUND EQUITY		
Donated Capital		
Donated Capital Fund-A	964,900	964,900
Donated Capital Fund	316,709	316,709
Donated Capital Government	90,891	—0—
Donated Capital Developers	14,190	14,190
Total Donated Capital	1,386,690	1,305,800
Retained Earnings	877,117	95,395
TOTAL FUND EQUITY	877,117	790,895
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,513,774	\$ 1,543,854

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

LINCOLN PARISH WATERWORKS DISTRICT #3
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
REVENUES		
Water Sales	\$ 160,803	\$ 167,273
Collection Fees	3,498	3,949
Turn On Water	2,100	2,218
New Installations	65,727	8,240
Penalties	4,008	4,855
Miscellaneous	143	2,913
Sewage Collection Fee	2,400	1,800
TOTAL REVENUES	<u>198,669</u>	<u>181,238</u>
EXPENSES		
Accounting	10,018	11,099
Bad Debts	1,164	116
Commissioner's Fees	1,666	1,785
Depreciation and Amortization	47,691	47,638
Installations	15,585	8,343
Insurance	7,138	8,251
Labor	28,535	28,245
Office Supplies	3,801	3,079
Repairs and Maintenance	20,113	26,256
Taxes - Payroll	1,070	2,088
Utilities	27,094	20,622
TOTAL EXPENSES	<u>184,662</u>	<u>165,701</u>
OPERATING INCOME	24,007	15,540
NONOPERATING REVENUES (EXPENSES)		
Interest Income	7,636	7,633
Interest Expense	(26,799)	(26,638)
Loss on Disposal of Asset	—	(75)
TOTAL NONOPERATING EXPENSES	<u>(19,163)</u>	<u>(19,080)</u>
NET LOSS	(5,156)	(13,617)
RETAINED EARNINGS - BEGINNING	<u>95,396</u>	<u>111,013</u>
RETAINED EARNINGS - ENDING	<u>\$ 90,240</u>	<u>\$ 97,396</u>

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

1995

BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 145,000	\$ 157,273	\$ 12,273
3,900	3,948	149
2,000	2,218	218
3,700	8,240	4,540
3,500	4,866	1,366
400	2,915	2,515
1,800	1,800	-0-
<u>192,200</u>	<u>181,250</u>	<u>21,050</u>
9,000	11,059	(2,059)
-0-	118	(118)
1,800	1,755	45
47,200	47,605	(405)
2,300	5,343	(3,043)
5,800	5,251	549
28,700	28,248	1,452
2,700	3,079	(379)
12,800	28,258	(23,758)
2,400	2,985	585
17,400	20,922	(3,522)
<u>132,800</u>	<u>165,707</u>	<u>(32,107)</u>
27,800	15,543	(12,057)
4,700	7,523	2,823
(40,000)	(28,608)	1,392
-0-	(75)	(75)
<u>(35,300)</u>	<u>(21,153)</u>	<u>4,147</u>
\$ <u>(7,700)</u>	\$ <u>(15,617)</u>	\$ <u>(7,917)</u>

LINCOLN PARISH WATERWORKS DISTRICT #3
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers and Users	\$ 193,794	\$ 187,740
Cash Payments for Goods and Services	(98,074)	(91,023)
Cash Payments to Employees	(26,506)	(26,248)
Net Cash Provided by Operating Activities	<u>77,215</u>	<u>68,478</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	(4,000)	(3,618)
Purchase of Investments	(137,186)	(151,131)
Proceeds from Sale of Investments	121,131	114,939
Interest Received	7,392	7,588
Net Cash Used in Investing Activities	<u>(52,673)</u>	<u>(1,222)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal Payments on Long Term Debt	(19,117)	(19,713)
Interest Paid	(39,997)	(40,103)
Net Cash Used by Financing Activities	<u>(59,114)</u>	<u>(60,816)</u>
NET INCREASE (DECREASE) IN CASH	16,798	7,442
CASH AT BEGINNING OF YEAR	<u>63,662</u>	<u>46,320</u>
CASH AT END OF YEAR	<u>\$ 80,460</u>	<u>\$ 53,762</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 24,933	\$ 15,543
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	47,691	47,608
Changes in Assets and Liabilities Which Required or Provided Cash:		
(Increase) Decrease in Accounts Receivable	(1,558)	3,425
(Increase) Decrease in Due from Police Jury	(200)	(400)
(Increase) Decrease in Prepaid Expenses	2,241	(1,088)
(Increase) Decrease in Insurance Deposit	(186)	606
Increase (Decrease) in Customers' Deposits	5,930	3,928
Increase (Decrease) in Accounts Payable	(948)	1,251
Increase (Decrease) in Due to Police Jury	127	(400)
Increase (Decrease) in Taxes Payable	(715)	(2,188)
Total Adjustments	<u>62,282</u>	<u>62,938</u>
Net Cash Provided by Operating Activities	<u>\$ 77,215</u>	<u>\$ 68,478</u>
NONCASH INVESTING ACTIVITIES:		
Contribution of Fixed Asset from Government	<u>\$ 63,951</u>	

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

LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lincoln Parish Waterworks District #3 was organized by the Lincoln Parish Police Jury for the purpose of constructing a waterworks system and providing such service to the residents in Waterworks District #3, Lincoln Parish.

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 governmental accounting and financial reporting standards. This codification is recognized as generally accepted accounting principles for state and local government. The accounting and reporting policies of the Lincoln Parish Waterworks District #3 conform to these generally accepted accounting principles and the requirements of Louisiana Revised Statute 24:513 and to the guides set forth in the Louisiana Governmental Audit Guide and to the industry audit guide, Audits of State and Local Governmental Units, published by the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

For financial reporting purposes, in conformity with GASB Statement No. 14, the Lincoln Parish Waterworks District #3 is a component unit of the Lincoln Parish Police Jury. For the purpose of this financial report, this component unit serves as the nucleus for its own financial reporting entity and issues separate financial statements.

B. BASIS OF ACCOUNTING

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

The financial records of the Lincoln Parish Waterworks District #3 are accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

C. BUDGETARY PRACTICES

The Lincoln Parish Waterworks District #3 adopted operating budgets for the years ended September 30, 1997 and 1996, as required by the U.S. Department of Agriculture – Farmers Home Administration. The budget for year ended September 30, 1997 and 1996 are presented in the Statement of Revenues and Expenses – Budget and Actual. Appropriations lapse at year end and must be reappropriated for the following year to be expended.

D. USE OF ESTIMATES

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

LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. VACATION AND SICK LEAVE

Vacation and sick leave are noncumulative. There are no accumulated and vested benefits relating to vacation and sick leave that require accrual or disclosure at year end.

F. CASH AND INVESTMENTS

Cash and investments consist of interest bearing demand deposits and time deposits. Under state law, the District may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Deposits are carried at cost which approximates market value.

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

G. RESTRICTED ASSETS

Certain resources that are set aside for the repayment of the Revenue Bonds and the Revenue Promissory Note are classified as restricted assets on the balance sheet because their use is limited by applicable bond and note covenants. The following is a summary of the flow of funds and restrictions on use under the terms of the Revenue Promissory Note agreement dated September 23, 1995.

All income and revenues from the operation of the system shall be set aside into a separate and special fund designated "Waterworks Revenue Fund" and said fund shall be established, maintained, and administered in the following order of priority and for the following express purposes:

- (a) Money shall be set aside at the first of the month sufficient to pay all the operating expenses and to make reasonable provision for the repair and maintenance of the system.
- (b) An amount sufficient to pay the principal and interest of said note as it becomes due and create a margin of safety shall be paid into the Sinking Fund Account. It is determined that an amount not less than 1/12 of the amount of principal and interest becoming due on the next succeeding payment date plus the sum of \$40.00 until a reserve of \$2,400 has been accumulated shall be paid into the Sinking Fund.
- (c) An amount equal to \$40 per month shall be paid from the Waterworks Revenue Account into a fund designated "Waterworks Depreciation Fund" on the first day of each month while the note issued is outstanding.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1997

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the terms of the Waterworks Revenue Bond agreements, dated August 16, 1990, and January 15, 1992, all of the income and revenues earned from the operation of the waterworks system, after making all payments required in connection with the outstanding Revenue Promissory Note, dated September 20, 1995, and payment of all reasonable and necessary expenses of operating and maintaining the system shall be administered in the following order of priority:

- (a) Money sufficient to pay the principal and interest due in an annual installment shall be set aside and accumulated on a monthly basis in an amount equal to 1/12 of the annual installment into the Sinking Fund.
- (b) An amount equal to five percent (5%) of the amount to be paid into the Sinking Fund must be deposited into the Waterworks Reserve Fund, until there is on deposit an amount equal to \$54,673.
- (c) An amount equal to \$259 per month shall be deposited into the Waterworks Depreciation Fund.

H. FIXED ASSETS

All fixed assets are stated at historical cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using either the straight-line method or the declining balance method. The estimated useful lives are as follows:

Buildings	10–39 years
Water Lines and Well	20–50 years
Equipment	5–10 years

I. COMPARATIVE DATA

Comparative amounts for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

NOTE 2 – CASH AND INVESTMENTS

Cash consists of interest-bearing demand deposits and cash on hand. Investments consist of time deposits. State law requires that the bank deposit and maintain security for the District equal to one hundred percent of the balance on deposit. At September 30, 1997, the carrying amount of the District's deposits was \$126,557 and there was a petty cash fund of \$60. The bank balance for the deposits was \$201,521. Of the bank balance, \$101,667 was covered by federal depository insurance, \$73,315 was covered by pledged securities held as collateral, and \$27,519 was uncollateralized.

Because the pledged securities are held by the custodial bank in the name of the fiscal agent bank rather than in the name of the District, they are considered uncollateralized (Category 3) under the provisions of GASB codification C20-106.

LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 3 – RESTRICTED ASSETS

Certain assets of the Lincoln Parish Waterworks District #3 have been restricted for debt service, customer deposits, and repair and maintenance of the water system. These assets consist of cash and investments restricted as follows:

	September 30,	
	1997	1996
Debt Service and Repairs	\$ 81,872	\$ 68,367
Customer Deposits	36,761	39,931
Total Restricted Assets	\$ 118,633	\$ 108,298

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Lincoln Parish Waterworks District #3 entered into a cooperative agreement with the Lincoln Parish Police Jury on November 14, 1995. This agreement established a \$200 per month fee to be paid to the District for billing of sewer fees for Eastern Hills/Blueberry Hills Subdivisions beginning January 1, 1996. The Police Jury owed the District the following at September 30, according to this agreement:

Due from Lincoln Parish Police Jury	\$ 600	\$ 400
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NOTE 5 – PLANT AND EQUIPMENT

The following is a summary of plant and equipment for the years ending September 30, 1997 and 1996:

	September 30,	
	1997	1996
Land	\$ 19,585	\$ 19,585
Buildings	103,122	103,122
Water Mains, Lines, Furniture and Equipment	1,766,169	1,668,309
Less: Accumulated Depreciation	(601,364)	(483,946)
Net Plant and Equipment	\$ 1,387,512	\$ 1,296,070

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS

Lincoln Parish Waterworks District #3 collects sewer fees for the Lincoln Parish Police Jury, per a cooperative agreement with the Police Jury. The District remits collections to the Police Jury monthly. At September 30, the District had billed the following sewer fees but had not collected them from the customers:

Due to Lincoln Parish Police Jury	\$ 2,104	\$ 1,977
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LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 7 – LONG-TERM DEBT

The following is a summary of long-term debt activity of the Lincoln Parish Waterworks District #3 for the periods ended as indicated:

	Bonds Payable	Note Payable	Total
Balance at September 30, 1996	\$ 673,358	\$ 39,999	\$ 713,357
Debt Retired	(15,954)	(3,213)	(19,167)
Balance at September 30, 1997	658,304	36,786	695,090
Less Current Maturities	(17,528)	(810)	(18,338)
Long-Term Debt at September 30, 1997	\$ 640,776	\$ 35,976	\$ 676,752

Long-Term debt payable is comprised of the following individual debt instruments:

Revenue Bonds

\$238,000 Waterworks Revenue Bonds, dated August 28, 1980, due in annual installments of \$17,500 – \$18,000 through August 28, 2006; interest at 5%; secured by revenues earned by the District from the operation of the waterworks system. \$ 112,000

\$595,000 Waterworks Revenue Bonds, dated January 13, 1990, due in annual installments of \$38,823.44 on August 28th of each year through 2020; interest at 5 3/4%; secured by revenues earned by the District from the operation of the waterworks system. 644,301

Revenue Promissory Note

\$94,000 Revenue Promissory Note, dated September 28, 1988, due in annual installments of \$4,626 through January 1, 2007; interest at 3.75%; secured by revenues earned by the District from the operation of the waterworks system. 39,796

Total Long-Term Debt 695,090

Less Current Maturities (18,338)

Long-Term Debt, Net of Current Maturities \$ 676,752

The annual requirement to amortize all debt outstanding as of September 30, 1997, including \$736,366 of interest, is as follows:

	Bonds	Note	Total
1998	54,423	1,026	55,449
1999	55,923	4,626	60,549
2000	54,223	4,626	58,849
2001	53,573	4,626	58,199
2002	53,923	4,626	58,549
2003–2031	1,118,077	30,881	1,148,958
Totals	\$ 1,988,042	\$ 49,411	\$ 2,037,453

LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 7 – LONG-TERM DEBT (continued)

The annual sinking fund requirement for all debt outstanding as of September 30, 1997, is as follows:

1996	\$	65,306
1999	\$	64,764
2000	\$	66,092
2001	\$	64,497
2003	\$	64,660

NOTE 8 – LPPA BOND FEES

The Louisiana Public Facilities Authority (LPPA) advanced \$277,863 to the Lincoln Parish Waterworks District #3 to be used for the capital improvement and expansion of the present waterworks system. This advance was made to fund the interim financing for the \$666,000 water revenue bond issue purchased by the Farmers Home Administration on January 15, 1992. Additionally, the LPPA advanced \$31,360 for the payment of bond fees related to the water revenue bond issue. Construction interest was originally capitalized as part of the bond fees. When the bonds were issued on January 15, 1992, construction interest of \$20,039 had been earned and was deducted from the capitalized bond fees for a balance of \$11,322. This balance is being amortized over 40 years. The following is a summary of the LPPA bond fees for the years ending September 30, 1997 and 1996:

	September 30,	
	1997	1996
LPPA Bond Fees	\$ 11,322	\$ 11,322
Less: Accumulated Amortization	(1,816)	(1,333)
Net LPPA Bond Fees	\$ 9,506	\$ 9,989

NOTE 9 – FEES TO COMMISSIONERS

Fees paid to the commissioners of the Lincoln Parish Waterworks District #3 for the year ended September 30, 1997 and 1996 were as follows:

	September 30,	
	1997	1996
James Albritton	\$ 406	\$ 400
Jack Allen	166	-0-
Willard Anderson	406	-0-
Andy Gibson	120	80
G.W. Kimple	406	390
James Mason	-0-	406
Don Smith	166	-0-
Clyde Williams	-0-	450
TOTAL	\$ 1,666	\$ 1,756

LINCOLN PARISH WATERWORKS DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

NOTE 10 – RELATED PARTY TRANSACTIONS

During the year ended September 30, 1997, the District disbursed \$767 to related parties for operating expenses. As of September 30, 1997, there were no amounts due to related parties.

NOTE 11 – DONATED CAPITAL

In May, 1997, the District began providing water services to the Olive Grove Community. The addition of these lines was funded by the Jackson Parish Police Jury and donated to the District, resulting in an increase in donated capital of \$23,551.

ADDITIONAL REPORTS

DON H. McGEHEE

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Commissioners of the Lincoln Parish
Waterworks District #3

I have audited the general purpose financial statements of Lincoln Parish Waterworks District #3, a component unit of the Lincoln Parish Police Jury, as of and for the year ended September 30, 1997, and have issued my report thereon dated March 26, 1997.

I conducted my audit in accordance with generally accepted auditing standards and 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.

The management of the Lincoln Parish Waterworks District #3 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, and 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. Because of inherent limitations in any internal control structure, errors or irregularities 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.

In planning and performing my audit of the general purpose financial statements of Lincoln Parish Waterworks District #3 for the year ended September 30, 1997, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Any adequate structure of internal control includes provisions that separate the duties of handling and recording cash transactions. Due to the District having so few employees, the separation of duties is not feasible. I consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

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.

My 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, I believe the above mentioned reportable condition to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in my audit of the general purpose financial statements of the Lincoln Parish Waterworks District #3 for the year ended September 30, 1997.

This report is intended for the information of the Board of Commissioners of the Lincoln Parish Waterworks District #3, its management, the United States Department of Agriculture - Rural Economic and Community Development, and the Legislative Auditor of Louisiana. However, this report is a matter of public record and its distribution is not limited.



Don M. McGehee
Certified Public Accountant
March 26, 1998

DON M. McGEHEE

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Commissioners of the Lincoln Parish Waterworks District #3:

I have audited the general purpose financial statements of Lincoln Parish Waterworks District #3, a component unit of the Lincoln Parish Police Jury, for the year ended September 30, 1997, and have issued my report thereon dated March 26, 1998.

I conducted my audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to Lincoln Parish Waterworks District #3 is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Commissioners of Lincoln Parish Waterworks District #3, its management, the United States Department of Agriculture - Rural Economic and Community Development, and the Legislative Auditor of Louisiana. However, this report is a matter of public record and its distribution is not limited.


Don M. McGehee
Certified Public Accountant
March 26, 1998