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SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA

TANGIPAHOA PARISH COUNCIL
AMITE, LOUISIANA

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 1998

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 JUN 02 1999

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA**

**TANGIPAHOA PARISH COUNCIL
AMITE, LOUISIANA**

Component Unit Financial Statements
As of and for the Year Ended December 31, 1998
With Supplemental Schedules

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OF THE
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TANGIPAHOA PARISH COUNCIL
AMITE, LOUISIANA

Component Unit Financial Statements
As of and for the Year Ended December 31, 1998
With Supplemental Schedules

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Sewerage District No. 1 of the
Parish of Tangipahoa, Louisiana
Tangipahoa Parish Council
Amite, Louisiana

We have audited the accompanying component unit financial statements of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, a component unit of the Tangipahoa Parish Council, as of December 31, 1998, and for the year then ended, as listed in the Table of Contents. These component unit financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Sewerage District No. 1 has included such disclosures in Note 16. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Sewerage District No. 1's disclosures with respect to the year 2000 issue made in note 16. Further, we do not provide assurance that the Sewerage District No. 1's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Sewerage District No. 1 does business with will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, as of December 31, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 1999, on our consideration of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the component unit financial statements of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

March 8, 1999

**Sewerage District No. 1
of the
Parish of Tangipahoa, Louisiana
Tangipahoa Parish Council
Amite, Louisiana**

STATEMENT A

BALANCE SHEET - PROPRIETARY FUND TYPE

December 31, 1998

Assets

Current Assets:

Cash	\$	-
Investments, at Fair Value		82,294
Accounts Receivable, Net		54,758
Due From Other Funds		1,972
Due From Others		12,239
Total Current Assets		151,263

Restricted Assets:

Cash - RUS Depreciation & Contingency Fund		9,744
Cash - RUS Bond Reserve Fund		9,363
Total Restricted Assets		19,107

Property, Plant and Equipment:

Land		54,981
Sewerage Systems		2,722,361
Total Property, Plant and Equipment		2,777,342

Less: Accumulated Depreciation

Net Property, Plant and Equipment		(543,319)
Total Assets	\$	2,404,393

Liabilities and Fund Equity

Liabilities:

Current Liabilities (Payable From Current Assets):

Accounts Payable	\$	17,383
Cash Overdraft		6,149
Salaries and Wages Payable		1,932
Current Maturities-Capital Lease		9,513
Due to Other Funds		535
Total Current Liabilities (Payable From Current Assets)		35,512

Current Liabilities (Payable From Restricted Assets):

Current RUS Bond Payable		7,688
Accrued RUS Bond Interest		3,343
Total Current Liabilities (Payable From Restricted Assets)		11,031

Continued on the following page

The accompanying notes are an integral part of these statements.

Sewerage District No. 1
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Tangipahoa Parish Council
Amite, Louisiana

STATEMENT A

BALANCE SHEET - PROPRIETARY FUND TYPE
(Continued)
December 31, 1998

Long-Term Liabilities:	
Revenue Bonds Payable -	
RUS Loan 92-01	\$ 702,948
RUS Loan 92-02	64,118
Capital Lease	12,192
Total Long-Term Liabilities	<u>779,258</u>
Total Liabilities	<u>825,801</u>
Fund Equity:	
Contributed Capital	1,936,897
Less: Accumulated Amortization	(431,440)
Net Contributed Capital	<u>1,505,457</u>
Retained Earnings:	
Reserved for RUS Bond Depreciation and Contingency	9,744
Reserved for RUS Bond Reserve Fund	9,363
Unreserved	54,028
Total Retained Earnings	<u>73,135</u>
Total Fund Equity	<u>1,578,592</u>
Total Liabilities and Fund Equity	<u>\$ 2,404,393</u>

(Concluded)

The accompanying notes are an integral part of these statements.

Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana
Tangipahoa Parish Council
Amite, Louisiana

STATEMENT B

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN UNRESERVED
RETAINED EARNINGS - PROPRIETARY FUND TYPE
Year Ended December 31, 1998

Operating Revenues	
Sewerage Fees	\$ 366,399
Maintenance Fees - Landfill	12,000
Interest Income	6,282
Miscellaneous Revenue	5,846
Total Operating Revenues	<u>390,527</u>
Operating Expenses	
Salaries	56,094
Payroll Taxes	2,309
Retirement Contributions	4,364
Board Meetings	4,600
Office Supplies	425
Telephone	6,711
Fuel and Lubricants	678
Operating Supplies	7,674
Uniforms	1,720
Equipment Rentals	401
Sewer Plant Maintenance	92,743
Equipment Maintenance	4,545
Fees, Charges, and Services	12,431
Professional Services	51,089
Insurance	14,668
Travel	7,454
Official Publications	105
Bad Debt Expense	1,127
Depreciation Expense	82,255
Miscellaneous	150
Total Operating Expense	<u>351,543</u>
Net Operating Income (Loss)	<u>38,984</u>
Non-Operating Revenue (Expenses):	
Unrealized Gain on Investments	165
Interest Expense	(44,971)
Total Non-Operating Revenue (Expenses)	<u>(44,806)</u>
Net Income (Loss) Before Prior Period Adjustment	(5,822)
Prior Period Adjustments (Note 14):	
Entergy Refunds	<u>30,273</u>
Net Income After Prior Period Adjustment	24,451
Amortization of Contributed Capital	53,523
Increase in Reserve for Contingencies	(4,990)
(Deficit) Retained Earnings-Unreserved	
January 1, 1998	<u>(18,956)</u>
Retained Earnings-Unreserved December 31, 1998	<u>\$ 54,028</u>

The accompanying notes are an integral part of these statements.

Sewerage District No. 1
of the
Parish of Tangipahoa, Louisiana
Tangipahoa Parish Council
Amite, Louisiana

STATEMENT C

STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE
Year Ended December 31, 1998

Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 38,984
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	82,255
Changes in Accounts Receivable	(10,517)
Changes in Due From Other Funds	(12,239)
Changes in Due From Others	(1,972)
Changes in Accounts Payable	10,714
Changes in Due to Other Funds	535
Changes in Salaries and Wages Payable	(230)
Changes in Due to Others	-
Changes in Prior Period Adjustments	30,272
Changes in Accrued RUS Bond Interest	281
Total Adjustments	<u>99,099</u>
Net Cash Provided by (Used For) Operating Activities	<u>138,083</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Capital Lease	-
Principal Repayments-	
RUS Bond - 92-01	(6,940)
RUS Bond - 92-02	(642)
Capital Lease	(9,531)
Interest Payments - RUS Loan	(43,489)
Interest Payments Capital Lease	(1,482)
Changes in Cash Overdraft	5,436
Payments for Capital Additions	(4,340)
Net Cash Provided by Capital and Related Financing Activities	<u>(60,988)</u>
Cash Flows from Investing Activities:	
Deposits to Investment Pools	<u>(72,106)</u>
Net Cash Provided by Investing Activities	<u>(72,106)</u>
Net Cash Increase for Year	4,989
Cash at Beginning of Year	<u>14,118</u>
Cash at End of Year	<u>\$ 19,107</u>

Note 1: During the fiscal year ended December 31, 1998, the Tangipahoa Parish Council provided funding of \$47,955 for sewer system plant improvements. Since funding was provided by the Council, the donation was recorded as contributed capital, and the transaction did not generate cash flows.

The accompanying notes are an integral part of these statements.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998

INTRODUCTION

Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana was established May 12, 1985, by an ordinance of the Tangipahoa Parish Council. The ordinance, enacted pursuant to Louisiana Revised Statutes 33:3881 et seq., describes and defines the boundaries of the sewer district, and per amendment to the original ordinance, provides for a 5-member governing Board of Commissioners appointed by the Tangipahoa Parish Council. Subsequent revisions and amendments of the original ordinance have extended the boundaries of the district to all unincorporated areas of Tangipahoa Parish.

Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana serves 1,482 sewer customers. The district currently has three employees with responsibility for operation and maintenance of the sewer systems. The district contracts the billings of sewer customers to outside billing agents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying component unit financial statements of the Sewerage District No.1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

As the governing authority of the parish, the Tangipahoa Parish Council is the financial reporting entity for Tangipahoa Parish. The financial reporting entity consists of (a) the primary government (parish council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Tangipahoa Parish Council for financial reporting purposes. The basic criterion for *including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:*

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the parish council to impose its will on that organization and/or

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Notes to the Financial Statements
(Continued)
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- b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the parish council.
2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the parish council.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the parish council appoints the governing board and the scope of public service is determined by the parish council, the district was determined to be a component unit of the Tangipahoa Parish Council, the financial reporting entity. The accompanying financial statements present information only on the fund maintained by the district and does not present information on the parish council, the general governmental services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprise its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

D. BASIS OF ACCOUNTING

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

Revenues

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

Expenditures

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

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana
Notes to the Financial Statements
(Continued)
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E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

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

F. INVESTMENTS

Investments are limited by Louisiana Revised Statutes (R.S.) 33:2955 and the district's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, are maintained in the Louisiana Management Pool, Inc. (LAMP). LAMP is a non-profit corporation formed by an initiative of the State Treasurer and organized under the laws of Louisiana, and operates as a local government investment pool. LAMP invests its assets only in securities and other obligations that are permissible under Louisiana State law for local governments. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or otherwise backed by the U.S. Treasury, the U.S. Government or one of its agencies, enterprises, or instrumentalities.

GASB Statement No. 31 requires the following disclosures:

1. The methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices.
2. The policy for determining which investments, if any, are reported at amortized cost.
3. For any investments in external investment pools that not SEC-registered, a brief description of any regulatory oversight for the pool and whether the fair value of the position in the pool is the same as the value of the pool shares.
4. Any involuntary participation in an external investment pool.
5. If any entity cannot obtain information from a pool sponsor to allow it to determine the fair value of its investment in the pool, the methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate.
6. Any income from investments associated with one fund that is assigned to another fund.

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Amite, Louisiana
Notes to the Financial Statements
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As of and for the Year Ended December 31, 1998**

GASB Statement No. 31 requires the district to report investments at fair value on the balance sheet, except as follows:

1. Investments in nonparticipating interest-earning contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, should be reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.
2. The district may report at amortized cost money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or other factors. Money market investments are short-term, highly liquid debt instruments that include U.S. Treasury obligations. Interest-earning investment contracts include time deposits with financial institutions (such as certificates of deposit), repurchase agreements, and guaranteed investment contracts.

GASB Statement No. 31, also requires that the district recognize all investment income, including changes in the fair value of investments, as revenue in the operating statement.

G. INVENTORIES

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

H. PREPAID ITEMS

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

I. RESTRICTED ASSETS

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

J. FIXED ASSETS

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

**SEWERAGE DISTRICT NO. 1
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K. COMPENSATED ABSENCES

Employees of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, are paid by the parish council and classified as employees of the parish council. The Tangipahoa Parish Council has the following policy relating to vacation and sick leave:

Parish Council employees are entitled to certain compensated absences based on their length of employment and overtime worked. Vested compensated absences are recorded as expenditures when the liability is incurred. Sick leave has not been accrued as the employee's right to sick leave does not vest.

The cost of current leave privileges, computed in accordance with GASB Statement No. 16, is recognized as a current year expenditure when the leave is actually taken. Any accumulated leave privileges of employees of the district, at fiscal year-end, are recorded as a fund liability and salary expense.

L. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

M. FUND EQUITY

Contributed Capital

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

Reserves

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

N. USE OF ESTIMATES

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

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2. CASH AND CASH EQUIVALENTS

At December 31, 1998, the district maintained its cash and cash equivalent deposits in demand deposit accounts, and deposited excess funds as an investment within the Louisiana Asset Management Pool (LAMP). The demand deposits of the district are maintained in a central depository account of the Tangipahoa Parish Council, and the LAMP investment is maintained as a part of the LAMP investment of the Tangipahoa Parish Council. At December 31, 1998, the district had cash and cash equivalents (book balances) totaling \$12,958.

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

These interest bearing demand deposits of the parish council 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 equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 1998, the parish council had \$790,910 in deposits (collected bank balances), with a total of \$787,409 deposited in interest-bearing accounts, and \$3,501 in non-interest bearing accounts. The total of \$787,409 deposited in interest-bearing accounts is secured from risk by \$100,000 of federal deposit insurance and \$687,409 of pledged securities held by the custodial bank in the name of the fiscal agent bank (Category 3), with the total of \$3,501 in non-interest bearing accounts secured from risk by \$100,000 of federal deposit insurance.

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

3. INVESTMENTS

Investments held by the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, at December 31, 1998, include the following:

Type of Investment	Fair Value	Total Carrying Amount
External Investment Pool	\$ 82,294	\$ 82,129

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OF THE
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The investments of the district are included within the Louisiana Asset Management Pool, Inc. (LAMP) and are maintained as part of the investment account of the Tangipahoa Parish Council. The total carrying amount of the LAMP investment account for the Tangipahoa Parish Council at December 31, 1998 was \$5,028,071, with a reported fair value of \$5,038,170. Fair value of the LAMP funds are calculated based on the reported net asset value and fair value reported for the LAMP fund for participating governments in Louisiana as of December 31, 1998.

LAMP is a local government investment pool (see Summary of Significant Accounting Policies). In accordance with GASB Codification, the investment in LAMP at December 31, 1998, is not categorized in the three risk categories provided by GASB codification because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. The Corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Officers Association of Louisiana, and the Society of Louisiana CPAs. Only governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of funds in short-term, highly liquid investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government or one of its agencies, enterprises, or instrumentalities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

4. RECEIVABLES

Pursuant to an ordinance adopted April 8, 1996, by the Tangipahoa Parish Council, all water companies operating within the unincorporated portions of Tangipahoa Parish must collect sewerage billings for Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana. The ordinance requires that the water company shall provide that any person failing to timely pay the entire billing of sewerage charges within the prescribed time period for utility payment of said water company, then in that event, their water service shall be disconnected until all past due sewerage charges and reconnect charges for sewerage billings are paid in full. Subsequent to the above stated ordinance, Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, adopted a resolution requiring that past due accounts be disconnected within thirty days of non-payment, in accordance with revenue bond requirements.

**SEWERAGE DISTRICT NO. 1
OF THE
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Notes to the Financial Statements

(Continued)

As of and for the Year Ended December 31, 1998

Each billing agent for the sewerage district remits a check for collections on account, along with a copy of the billing journal, directly to the Tangipahoa Parish Council. The following is a summary of customer accounts receivable at December 31, 1998, for the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana:

Current	\$ 48,628
31 - 60	4,901
61 -90	1,228
Over 90	1,128
Total	\$ 55,885
Less: Allowance for Uncollectible Accounts	(1,127)
Net Accounts Receivable	\$ 54,758

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. The Board of Commissioners of Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, periodically reviews the aging of receivables and determines actual amounts uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility. For the fiscal year ending December 31, 1998, the District had recorded \$1,127 in bad debt expense.

In addition to customer receivables recorded at December 31, 1998, the district recorded Due from Others of \$12,239 for electricity refunds due, and Due From Other Funds of \$1,972 for worker's compensation refunds due from the Tangipahoa Parish Council Employee Withholding Fund.

5. FIXED ASSETS

A summary of fixed assets at December 31, 1998, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Land	-	\$ 54,981	\$ -	\$ 54,981	\$ -
Sewerage Systems	20	64,300	43,510	20,790	3,215
Sewerage Systems	24	50,400	29,400	21,000	2,100
Sewerage Systems	30	404,702	124,282	280,420	13,490
Sewerage Systems	40	751,288	106,940	644,348	18,782
Treatment Plants/ Lift Stat.	20	57,955	6,500	51,455	500
Treatment Plants/ Lift Stat.	24	40,000	23,338	16,662	1,667
Treatment Plants/ Lift Stat.	30	317,150	115,274	201,876	10,572

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Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Treatment Plants/ Lift Stat.	40	90,000	23,250	66,750	2,250
Velma Sewerage System	40	656,688	46,515	610,173	16,417
Donated Systems	35	244,261	11,809	232,452	6,979
Machinery & Equipment	7	45,617	12,501	33,116	6,283
Totals		<u>\$2,777,342</u>	<u>\$ 543,319</u>	<u>\$ 2,234,023</u>	<u>\$ 82,255</u>

All assets are depreciated by the straight-line method. Total depreciation expense of \$82,255 was recorded for the fiscal year ending December 31, 1998.

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(Continued)

As of and for the Year Ended December 31, 1998

6. CONSTRUCTION IN PROGRESS

As of December 31, 1998, the district had no construction in progress.

7. PENSION PLAN

Plan Description. Employees of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana participate in the pension plan for the Tangipahoa Parish Council. Substantially all employees of the Tangipahoa Parish Council, with the exception of the district attorney and assistant district attorneys, are members of the Parochial Employees Retirement System of Louisiana (System), a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Tangipahoa Parish Council are members of Plan A.

All permanent employees working at least 28 hours per week who are paid wholly or in part from parish funds and all elected officials are eligible to participate in the System. Under Plan A, employees who retire after age 60 with at least 10 years of creditable service, at or after age 55 with at least 25 years of service, or at any age with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of creditable service. However, for those employees that were members of the supplemental plan only before January 1, 1980, the benefit is equal to one percent of the final average salary plus \$24 for each year of supplemental-plan-only service earned before January 1, 1980. Final average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The system also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annually publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees Retirement System, Post Office Box 14619, Baton Rouge, Louisiana 70898-4619, or by calling (504) 928-1361.

Funding Policy. Under Plan A, members are required by state statute to contribute 9.5 per cent of their annual covered salary and the district is required to contribute at an actuarially determined rate. The current rate is 7.75 per cent of annual covered payroll. Contributions to the System also include one-fourth of one percent of the taxes to be shown collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the district are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:1103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The district's contributions to the System under Plan A for the years ending December 31, 1998, 1997, and 1996, were \$4,364, \$4,276, and \$3,235, respectively, equal to the required contributions for each year.

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(Continued)

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8. COMPENSATED ABSENCES

At December 31, 1998, the district recorded accrued payroll of \$1,932. This amount consisted of accrued payroll at December 31, 1998, of \$1,122 plus \$810 accrued vacation and overtime, computed in accordance with GASB Codification Section C60.

9. LEASES

The district records items under capital leases as assets and obligations in the accompanying financial statements. At December 31, 1998, two equipment items had been purchased under capital leases, at a purchase price of \$27,650 in 1996, and at a purchase price of \$12,783 in 1997.

The following is a summary of future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 1998:

Fiscal Year	Total
1999	\$ 10,522
2000	11,592
2001	1,070
Total Minimum Lease Payments	\$ 23,184
Less Amount Representing Interest	(1,479)
Present Value of Net Minimum Lease Payments	\$ 21,705

10. LONG-TERM DEBT

The following is a summary of bond transactions of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana for the year ended December 31, 1998:

	1993 RUS Sewer Revenue \$733,000	1993 RUS Sewer Revenue \$67,000	Total
Bonds Payable January 1, 1998	\$ 716,925	\$ 65,411	\$ 782,336
Bonds Retired/Adjustments	(6,940)	(642)	(7,582)
Bonds Payable December 31, 1998	\$ 709,985	\$ 64,769	\$ 774,754

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Bonds Payable at December 31, 1998, are comprised of the following individual Issues:

	Current Amount 12/31/98	Long-Term Amount 12/31/98	Total Principal Balance 12/31/98
1993 Revenue Bonds: \$733,000 utility bonds sold to RUS, dated 3/03/93; due in monthly installments of \$3900; through Feb. 3, 2033; interest at 5.625%	\$ 7,038	\$ 702,948	\$ 709,986
1993 Revenue Bonds: \$67,000 utility bonds sold to RUS, dated 3/03/93; due in monthly installments of \$356; through Feb. 3, 2033; interest at 5.625%	650	64,118	64,768
	<u>\$ 7,688</u>	<u>\$ 767,066</u>	<u>\$ 774,754</u>

The annual requirements to amortize all debt outstanding as of December 31, 1998, including interest payments of \$970,208 are as follows:

Year Ending December 31,	1993 RUS Revenue \$733,000	1993 RUS Revenue \$67,000	Total
1999	\$ 46,795	\$ 4,277	\$ 51,072
2000	46,795	4,277	51,072
2001	46,795	4,277	51,072
2002	46,795	4,277	51,072
2003-2007	233,974	21,386	255,360
2008-2012	233,974	21,386	255,360
2013-2017	233,974	21,386	255,360
2018-2022	233,974	21,386	255,360
2023-2027	233,974	21,386	255,360
2028-2032	233,974	21,386	255,360
2033	7,800	714	8,514
	<u>\$ 1,598,824</u>	<u>\$ 146,138</u>	<u>\$ 1,744,962</u>

**SEWERAGE DISTRICT NO. 1
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As of and for the Year Ended December 31, 1998

11. FLOW OF FUNDS, RESTRICTIONS ON USE

As of December 31, 1998, the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, has two Rural Utilities Service (RUS) Revenue Bonds. The total authorized issue of \$800,000 consists of two bonds issued on March 3, 1993, of \$733,000 and \$67,000, both issued at an annual interest rate of 5.625%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 1998, the bond debt coverage factor indicated net revenues (before interest expense and depreciation) were 235% of the required bond principal and interest payments, as compared to a ratio of 132% for the fiscal year ending December 31, 1997.

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

The actual creation of a sinking fund was not required since the district pays required bond installments directly to Rural Utilities Service, on a monthly basis.

- c) The establishment of the "Sewer Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Sewer Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 1996, per the RUS Letter of Conditions, was a total of \$212.80 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1993 Revenue Bonds became revenue producing on April 19, 1995. The district began making the required deposits in May, 1995.

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- d) For the fiscal year ending December 31, 1998, the district made the twelve required deposits of \$212.80 per month, for a total balance of \$9,363 at December 31, 1998.
- e) The establishment and maintenance of the "Sewer Depreciation and Contingency Fund" (the Contingency Fund) is organized to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Sewer Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month the sum of \$203 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund. The system improvements financed with the 1993 Revenue Bonds became revenue producing on April 19, 1995, although the district began making deposits to this fund in January, 1995.

For the fiscal year ending December 31, 1998, the district made the twelve required deposits of \$203, and maintained a balance of \$9,744 at fiscal year end.

- f) The district, in the bond resolution dated January 6, 1993, also obligated itself to abide by the following covenants:
1. The district will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within thirty days from the date on which such charges become delinquent.
 2. A penalty of 10% will be charged on all delinquent accounts, and interest of not less than 5% per annum will be charged on delinquent accounts after 10 days from the date of delinquency.
 3. The district will charge a residential rate of \$16.50 per month, and a commercial rate of \$30.00 per month.
 4. The district agrees to maintain the System in first class repair and working order and condition.
 5. The district will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
 6. The district will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.
 7. The district will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the district may dispose of property that in its judgement is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
 8. The district will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefor.
 9. That, to the extent permitted by law, the district will not grant a franchise to any utility for operation within the boundaries of the district.
 10. In operation of the System, the district will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.
 11. That the district will take all action necessary to require connection to its sewer system to the extent permitted by law.

In relation to items (1) and (2) above, concerning the disconnect of accounts, and the charges to delinquent accounts, the

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Tangipahoa Parish Council approved an ordinance on April 8, 1996, requiring water companies in the rural and unincorporated portions of Tangipahoa Parish to enter into contracts with Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana to collect sewerage billings for the sewerage district. The ordinance states that the water company shall provide that any person failing to timely pay the entire billing of sewerage charges within the prescribed time period for utility payment of said water company, then in that event the customer's water service shall be disconnected until all past due sewerage charges and reconnect charges for sewerage billings are paid in full. The said water company shall also be authorized to collect a penalty for reconnect charges associated with its disconnection of the said customer from water service due to the customer's failure to pay sewerage charges. Subsequent to the above stated ordinance, Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, adopted a resolution requiring that past due accounts be disconnected within thirty days of non-payment, in accordance with revenue bond requirements. The district's response to compliance findings related to the above items (1) and (2) are also included in the Summary Schedule of Prior Audit Findings.

The current rate schedule (Item 3), the schedule of insurance coverages (Item # 5) and fidelity bond coverages (Item 10) are disclosed in the "Supplemental Information" schedules included as a part of this audit report. Non-compliance was not noted in the review of the remaining bond covenants.

12. FUND EQUITY

Reserved Retained Earnings is created in conjunction with the issuance of revenue bonds and is funded by transfers from the revenue account, based on assets held by the sewer district that are restricted for bond payments. The purpose of the reserved retained earnings is to service the revenue bonds. Reserved retained earnings totaled \$19,107 at December 31, 1998.

13. DEFICIT UNRESERVED RETAINED EARNINGS

A deficit in unreserved retained earnings of \$18,956 was previously reported for the fiscal year ending December 31, 1997. Restatement of the financial statements for the fiscal year ending December 31, 1997, for the effect of a prior period adjustment, as noted in Footnote (14), would increase net income by \$30,273. With the effect of the prior period adjustment, the district would report an unreserved retained earnings balance of \$11,317, instead of the previously reported deficit in unreserved retained earnings of \$18,956 for the fiscal year ending December 31, 1997.

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14. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$30,273 was made to correct the beginning unreserved retained earnings balance. The adjustment is for electricity expense refunds received and due at December 31, 1997, net of expenses of collection. The refunds were collected based on an independent study of prior electricity billings for operation of sewer plants of the district. The correction to the beginning unreserved retained earnings account balance of the district is as follows:

12/31/97	Unreserved Retained Earnings Balance (Before Prior Period Adjustment)	\$ (18,956)
	Correction of an Error:	
	Electricity Refunds, Net of Collection Expense	30,273
12/31/97	Unreserved Retained Earnings Balance (After Prior Period Adjustment)	\$ 11,317

15. SEWER SYSTEM MANAGEMENT

The sewer district is operated by a manager hired by the district, but as an employee of the Tangipahoa Parish Council. Accounting and financial records of the district are maintained by the Tangipahoa Parish Council.

16. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the district's operations as early as fiscal year 1999.

The Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, has not inventoried computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the district operations. It was noted the Tangipahoa Parish Council maintains responsibility for accounting and financial reporting and the Council has recently implemented a version of Windows NT reported to be year 2000 compliant, and is in the process of reviewing hardware and software systems for year 2000 compliance. Software and computer systems of other agencies providing billing services for the district have not been inventoried to determine year 2000 compliance. It is unknown, as of December 31, 1998, what effects, if any, failing to remediate any such systems will have upon the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana's operations and financial reporting.

Because of the unprecedented nature of the year 2000 issue, its effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the district will be year 2000 ready, the district's remediation efforts will be successful in whole or in part, or that parties with whom the district does business will be year 2000 ready.

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17. SUBSEQUENT EVENTS

During the fiscal year ending December 31, 1998, construction was substantially completed for the Booker II Sewerage System. Funding of \$734,00 for the Booker II project was initially awarded to the Tangipahoa Parish Council under the Louisiana Community Development Block Grant (LCDBG) program. Pending final closeout of this project by the Tangipahoa Parish Council, system improvements of the Booker II Sewerage System will be formally donated by the Council to the sewer district for continued maintenance and operation.

SUPPLEMENTAL INFORMATION

Sewerage District No. 1
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SCHEDULE 1

COMPARATIVE BALANCE SHEET - PROPRIETARY FUND TYPE
December 31, 1998 and 1997

	Enterprise Fund	
	1998	1997
Assets		
Current Assets:		
Cash	\$ -	\$ -
Investments, at Fair Value	82,294	10,023
Accounts Receivable, Net	54,758	44,241
Due From Other Funds	1,972	-
Due From Others	12,239	-
Total Current Assets	151,263	54,264
Restricted Assets:		
Cash - RUS Depreciation & Contingency Fund	9,744	7,308
Cash - RUS Bond Reserve Fund	9,363	6,810
Total Restricted Assets	19,107	14,118
Property, Plant and Equipment:		
Land	54,981	54,981
Sewerage Systems	2,722,361	2,670,066
Total Property, Plant and Equipment	2,777,342	2,725,047
Less: Accumulated Depreciation	(543,319)	(461,064)
Net Property, Plant and Equipment	2,234,023	2,263,983
Total Assets	\$ 2,404,393	\$ 2,332,365
Liabilities and Fund Equity		
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 17,383	\$ 6,670
Cash Overdraft	6,149	713
Salaries and Wages Payable	1,932	2,162
Current Maturities-Capital Lease	9,513	9,451
Due to Other Funds	535	-
Total Current Liabilities (Payable From Current Assets)	35,512	18,996
Current Liabilities (Payable From Restricted Assets):		
Current RUS Bond Payable	7,688	7,251
Accrued RUS Bond Interest	3,343	3,063
Total Current Liabilities (Payable From Restricted Assets)	11,031	10,314

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

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SCHEDULE 1

COMPARATIVE BALANCE SHEET - PROPRIETARY FUND TYPE

(Continued)

December 31, 1998 and 1997

	Enterprise Fund	
	1998	1997
Long-Term Liabilities:		
Revenue Bonds Payable -		
RUS Loan 92-01	\$ 702,948	\$ 710,288
RUS Loan 92-02	64,118	64,797
Capital Lease	12,192	21,783
Total Long-Term Liabilities	779,258	796,868
Total Liabilities	825,801	826,178
Fund Equity:		
Contributed Capital	1,936,897	1,888,942
Less: Accumulated Amortization	(431,440)	(377,917)
Net Contributed Capital	1,505,457	1,511,025
Retained Earnings:		
Reserved for RUS Bond Depreciation and Contingency	9,744	7,308
Reserved for RUS Bond Reserve Fund	9,363	6,810
Unreserved	54,028	(18,956)
Total Retained Earnings	73,135	(4,838)
Total Fund Equity	1,578,592	1,506,187
 Total Liabilities and Fund Equity	 \$ 2,404,393	 \$ 2,332,365

(Concluded)

The accompanying notes are an integral part of these statements.

Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana
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SHEDULE 2

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

Year Ended December 31, 1998

And Actual for the Year Ended December 31, 1997

	Enterprise Fund			
	1998 Budget	1998 Actual	Variance- Favorable (Unfavorable)	1997 Actual
Operating Revenues				
Sewerage Fees	\$ 343,000	\$ 366,399	\$ 23,399	\$ 303,739
Maintenance Fees - Landfill	12,000	12,000	-	12,000
Interest Income	6,000	6,282	282	1,063
Miscellaneous Revenue	5,800	5,846	46	-
Total Operating Revenues	366,800	390,527	23,727	316,802
Operating Expenses				
Salaries	58,000	56,094	1,906	57,767
Payroll Taxes	2,350	2,309	41	2,613
Retirement Contributions	4,000	4,364	(364)	4,276
Board Meetings	4,600	4,600	-	4,875
Office Supplies	500	425	75	371
Telephone	6,200	6,711	(511)	6,080
Fuel and Lubricants	900	678	222	-
Operating Supplies	6,500	7,674	(1,174)	8,070
Uniforms	1,600	1,720	(120)	-
Equipment Rentals	10,000	401	9,599	1,899
Sewer Plant Maintenance	104,250	92,743	11,507	51,365
Equipment Maintenance	4,000	4,545	(545)	8,176
Fees, Charges, and Services	11,000	12,431	(1,431)	11,297
Professional Services	29,336	51,089	(21,753)	38,170
Insurance	16,235	14,668	1,567	14,207
Travel	8,000	7,454	546	8,430
Official Publications	1,000	105	895	1,409
Bad Debt Expense	-	1,127	(1,127)	-
Depreciation Expense	80,000	82,255	(2,255)	75,214
Miscellaneous	4,350	150	4,200	38
Total Operating Expense	352,821	351,543	1,278	294,257
Net Operating Income (Loss)	13,979	38,984	25,005	22,545
Non-Operating Revenue (Expenses):				
Unrealized Gain on Investments	-	165	165	-
Interest Expense	(45,000)	(44,971)	29	(45,626)
Total Non-Operating Revenue (Expenses)	(45,000)	(44,806)	194	(45,626)
Net Income (Loss) Before Prior Period Adjustment	\$ (31,021)	(5,822)	\$ 25,199	\$ (23,081)
Prior Period Adjustments (Note 14):				
Entergy Refunds		30,273		
Net Income After Prior Period Adjustment		24,451		
Amortization of Contributed Capital		53,523		
Increase in Reserve for Contingencies		(4,990)		
(Deficit) Retained Earnings-Unreserved				
January 1, 1998		(18,956)		
Retained Earnings-Unreserved December 31, 1998		\$ 54,028		

The accompanying notes are an integral part of these statements.

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SCHEDULE 3

COMPARATIVE SCHEDULE OF CASH FLOWS-PROPRIETARY FUND TYPE
Years Ended December 31, 1998 and 1997

	12/31/98	12/31/97
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 38,984	\$ (7,727)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	82,255	75,214
Changes in Accounts Receivable	(10,517)	(5,184)
Changes in Due From Other Funds	(12,239)	-
Changes in Due From Others	(1,972)	-
Changes in Accounts Payable	10,714	1,635
Changes in Due to Other Funds	535	-
Changes in Salaries and Wages Payable	(230)	(816)
Changes in Due to Others	-	(24,607)
Changes in Prior Period Adjustments	30,272	-
Changes in Accrued RUS Bond Interest	281	382
Total Adjustments	99,099	46,624
Net Cash Provided by (Used For) Operating Activities	138,083	38,897
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Lease	-	12,783
Principal Repayments-		
RUS Bond - 92-01	(6,940)	(6,687)
RUS Bond - 92-02	(642)	(617)
Capital Lease	(9,531)	(3,415)
Interest Payments - RUS Loan	(43,489)	(44,761)
Interest Payments Capital Lease	(1,482)	(865)
Changes in Cash Overdraft	5,436	(362)
Payments for Capital Additions	(4,340)	(13,169)
Net Cash Provided by Capital and Related Financing Activities	(60,988)	(57,093)
Cash Flows from Investing Activities:		
Deposits to Investment Pools	(72,106)	(10,023)
Net Cash Provided by Investing Activities	(72,106)	(10,023)
Net Cash Increase for Year	4,989	(28,219)
Cash at Beginning of Year	14,118	42,337
Cash at End of Year	\$ 19,107	\$ 14,118

Note 1: During the fiscal year ended December 31, 1998, the Tangipahoa Parish Council provided funding of \$47,955 for sewer system plant improvements. Since funding was provided by the Council, the donation was recorded as contributed capital, and the transaction did not generate cash flows.

The accompanying notes are an integral part of these statements.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 4

**SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
For the Year Ended December 31, 1998**

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

<u>NAME</u>	<u>Amount</u>
James Harper, President	\$780
Kenny Schatzle, Vice-President	420
Raymond Wheeler, Secretary	720
Vince Robique, Commissioner	420
Mark Mobley, Commissioner	600
Jimmy Reid (Term expired March, 1998)	180
Paul Stropola (Term expired March, 1998)	180
	<u>\$3,300</u>

Note: The amount of \$4,600 included within the financial statements as "Board Meeting" expense includes the above amount of \$3,300 paid to board commissioners, plus a total of \$1,300 in administrative expenses and record keeping related to board meetings. Information on board members as of December 31, 1998, is as follows:

<u>Board of Commissioners</u>	<u>Address</u>	<u>Term of Office</u>
James Harper, President	21054 Harper Lane Loranger, LA 70446	Expires March 2000
Kenny Schatzle, Vice- President	39185 Dutch Lane Ponchatoula, LA 70454	Expires March 2000
Raymond Wheeler, Secretary	61082 Bennett Road Amite, LA 70422	Expires March 1999
Vince Robique, Commissioner	P.O. Box 2516 Hammond, LA 70404	Expires March 2002
Mark Mobley, Commissioner	P.O. Box 402 Ponchatoula, LA 70454	Expires March 2002

The accompanying notes are an integral part of this statement.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 5

**SCHEDULE OF INSURANCE
For the Year Ended December 31, 1998**

Insurance Company	Coverage	Amount	Period
Scottsdale Indemnity Company Policy # CPI0003589	Commercial General Liability: General Aggregate Limit Each Occurrence Limit	\$300,000 \$100,000	3/01/98 3/01/99
Scottsdale Indemnity Company Policy # CPI0003589	Commercial Property Coverage: --Underground Lift Pumps --Aerators	\$35,000 \$19,000	3/01/98 3/01/99
Scottsdale Indemnity Company Policy # CPI0003589	Commercial Inland Marine Coverage: --Scheduled Coverage for Backhoe/Loader	\$27,650	3/01/98 3/01/99
Management Service USA Member # 0710049 (See Note 1 Below)	Workers' Compensation and Employers' Liability	Statutory Limits \$100,000 Per Occurrence \$500,000 Total	1/01/98 1/01/99
Western Surety Policy # 1828467 (Note 1)	Public Employee Dishonesty Coverage	\$ 50,000	1/01/92 Until Canceled

Note 1: Worker's Compensation and Public Employee Dishonesty coverages are provided for the Tangipahoa Parish Council, as named insured.

The accompanying notes are an integral part of this statement.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 6

**SCHEDULE OF SEWERAGE CUSTOMERS
For the Year Ended December 31, 1998**

As of December 31, 1998, the sewerage district had the following number of customers.

Sewer-Residential	1,469
Sewer-Commercial	<u>13</u>
Total Customers	<u><u>1,482</u></u>

**SCHEDULE OF SEWERAGE RATES
For the Year Ended December 31, 1998**

At December 31, 1998, the sewerage district had adopted the following rate schedule.

Category of Service	Flat Rate/mo.
Sewer-Residential	\$21.08
Sewer-Commercial	\$30.00

The accompanying notes are an integral part of this statement.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 7

Summary Schedule of Prior Audit Findings

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

Reference Number: 96-1

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1996

Description of Findings:

This compliance finding noted that the sewerage district had not complied with bond requirements for approving policies for disconnect of past due accounts. The original bond resolution specified that past due accounts must be disconnected within 30 days of the past due date. In order to comply with bond covenants, the Tangipahoa Parish Council approved an ordinance requiring that water companies in Tangipahoa Parish, providing billing services for Sewerage District No. 1, must disconnect past due accounts in accordance with the prescribed time period for utility payment of said water company. The Rural Utilities Service office also requires concurrent action by the sewerage district, and this change in disconnect policy must be approved by the bondholder, represented by the U.S. Department of Agriculture, Rural Utilities Service.

Corrective Action Taken (Response by Management):

The sewerage district corrected this finding by approving a resolution providing that sewerage district customer accounts be disconnected for nonpayment within thirty days and that all billing agents must notify the sewerage district at the time of disconnect of any sewerage customers, providing the date of disconnect, the amount owed to the district, and any address changes. This resolution was forwarded to the Rural Utilities Service, U.S. Department of Agriculture, for approval.

Corrective Action Taken: Partial

Additional Explanation:

The sewerage district has complied with bond requirements for adopting policies for disconnection of accounts. The only action required is to monitor and determine compliance by billing agents to the approved disconnect policy

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 7

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

Reference Number: 96-2

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1996

Description of Findings:

This finding related to establishing policies for charging penalties, interest on past due accounts, and charges for reconnect fees. The original bond resolution requires that a penalty charge of 10% will be charged on all delinquent accounts, interest of not less than 5% per annum will be charged on delinquent accounts after 10 days from the date of delinquency. We found no evidence that these charges were being assessed by the water companies providing billing services for the sewerage district.

Corrective Action Taken (Response by Management):

The Board of Commissioners of Sewerage District No. 1 corrected this finding by notifying billing agents for the sewerage district that the same penalty as is charged for water service by utility companies will apply to sewer district billings, subject to a minimum of 5% to be charged on the past due amount. Penalties will be charged only on the current billing, and not on accumulated past due balances. Copies of this policy were provided to billing agents, with copies of the notification provided to the Rural Utilities Service, U.S. Department of Agriculture.

Corrective Action Taken: Partial

Additional Explanation:

The sewerage district has complied with bond requirements for the adoption of policies for charging penalties on past due accounts. The only action required by the district is to monitor compliance to policy implementation by billing agents for the district.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 7

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

Reference Number: 96-3

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1996

Description of Findings:

This finding relates to a deficit in unreserved retained earnings. With the issuance of the 1993 Revenue Bonds, the Sewerage District covenants that they will provide revenues sufficient to pay the reasonable expenses of operating and maintaining the system, and to fund all obligations of the district, including *required reserves or sinking funds for bonded indebtedness*. The district further covenants that they will provide revenues, after paying all reasonable and necessary expenses of operating and maintaining the system, at least equal to 120% of the largest amount of principal and interest maturing on the bonds, and any subsequently issued parity bonds, in any succeeding fiscal year. The district continues to show a deficit in unreserved retained earnings of \$(18,956) for the fiscal year ending December 31, 1997, which represents an increase in the deficit of \$(10,193) reported for the fiscal year ending December 31, 1996. Although the bond debt coverage factor of 132% for the fiscal year ending December 31, 1997, was above the required ratio of 120%, the ratio for the fiscal year ending December 31, 1996, was 202%.

Corrective Action Taken (Response by Management):

As described in Footnote 13 (Deficit Unreserved Retained Earnings), a deficit in unreserved retained earnings of \$18,956 was previously reported for the fiscal year ending December 31, 1997. Restatement of the financial statements for the fiscal year ending December 31, 1997, for the effect of a prior period adjustment, as noted in Footnote 14 (Prior Period Adjustment), would increase net income by \$30,273. With the effect of the prior period adjustment, the district would report an unreserved retained earnings balance of \$11,317, instead of the previously reported deficit in unreserved retained earnings of \$18,956 for the fiscal year ending December 31, 1997. For the fiscal year ending December 31, 1998, the district reported a positive retained earnings balance of \$54,028, and increased the bond debt coverage factor to 235% as described in Footnote 11 (Flow of Funds, Restrictions on Use).

Corrective Action Taken: Yes

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 7

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

Reference Number: 97-1

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

Description of Findings:

As of December 31, 1997, the sewerage district has not determined the amount of uncollectible accounts receivable, nor had an aging of accounts receivable been developed. During the financial audit for the fiscal year ending December 31, 1997, billing and account data was received from the billing agents of the sewerage district, indicating the amounts currently billed and past due. However, sufficient detail on the past due amount was not provided at fiscal year end, or during the fiscal year, to properly determine the amounts that must be written off. In addition, billing agents have not developed procedures to notify the sewerage district for approval to write off uncollectible accounts. It was noted that two of the smaller billing agents reported no amounts past due.

Corrective Action Taken (Response by Management):

The sewerage district formally notified each of the billing agents that all billing agents must notify the sewerage district at the time of disconnection of any sewerage customers, providing the date of disconnection, the amount owed to the district, and any address changes. As of December 31, 1998, the district was able to compile an aging of accounts receivable, based on information provided by the billing agents.

Corrective Action Taken: Partial

Additional Explanation:

Corrective action taken is listed as partial, since the billing agents must still make the required programming changes to provide a monthly aging of accounts receivable for sewerage district accounts. The sewerage district will need to continue to monitor compliance by the billing agents, and will need to monitor the progress of billing agents in implementing new utility billing programs.

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 7

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

Section II - Management Letter

Reference Number: 96M-1

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

Description of Finding:

We noted in the management letter for the fiscal year ended December 31, 1996, that fidelity bonds of the billing agents should be checked to determine if they also provide coverage for the sewerage district in the event of a fidelity loss. This clarification is required since sewerage fees are collected by the billing agents, but the fidelity bonds are issued in the name of the billing agents.

Corrective Action Planned (Response by Management):

Preliminary discussions with the insurance agent of the main billing agent for the sewerage district have indicated that the interests of the sewerage district are protected. The district, prior to the issuance of the fiscal year December 31, 1998, financial audit, notified billing agents that they, or their insurance carriers, must provide a statement indicating that the interests of the sewerage district are protected.

Corrective action taken: Partially

Additional Explanation:

Corrective action is listed as partial since the sewerage district must continue to follow-up on the information requested on fidelity insurance bond coverages.

(Concluded)

**SEWERAGE DISTRICT NO. 1
OF THE
PARISH OF TANGIPAHOA, LOUISIANA
TANGIPAHOA PARISH COUNCIL
Amite, Louisiana**

Schedule 8

Correction Action Plan for Current Year Audit Findings

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

Reference Number: 98-1

Description of Finding:

It was noted within Footnote 16 (Year 2000 Issue) of the *Notes to the Financial Statements*, that the sewerage district has not inventoried computer systems and other electronic equipment that may be affected by the year 2000 issue. It was also noted that management of the district cannot assure that parties with which the district does business will be year 2000 ready. The sewerage district relies primarily on services of the Tangipahoa Parish Council for processing of accounting data, and on outside utility companies as billing agents for the district.

Corrective Action Planned (Response by Management):

The sewerage district will maintain contact with the Tangipahoa Parish Council on their efforts to achieve year 2000 compliance, and will monitor requirements and actions of its billing agents to determine that systems are year 2000 compliant.

Anticipated Completion Date:

We will check with the above described agencies immediately and throughout the remainder of the year to determine year 2000 compliance for systems and programs that process financial and management data of the sewerage district.

Name of Contact Person:

James Harper, President
Sewerage District No. 1 of Tangipahoa Parish
21054 Harper Lane
Loranger, LA 70446
(504) 543-4175

Section II - Management Letter

No findings for Section II.

(Concluded)

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

To the Board of Commissioners
Sewerage District No.1 of the
Parish of Tangipahoa, Louisiana
Tangipahoa Parish Council

We have audited the component unit financial statements of the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, as of and for the year ended December 31, 1998, and have issued our report thereon dated March 8, 1999, which was qualified because insufficient audit evidence exists to support the Sewer District No. 1 of the Parish of Tangipahoa's disclosure with respect to Year 2000 Issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the Summary Schedule of Prior Audit Findings as reference numbers 96-1, 96-2, and 96-3, and 97-1, and within the Corrective Action Plan for Current Year Audit Findings as reference numbers 98-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in the Summary Schedule of Prior Year Audit Findings, as Reference Number 96-M1.

BRUCE HARRELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Accounting Corporation

Board of Commissioners

Sewerage District No. 1 of Tangipahoa Parish

Tangipahoa Parish Council

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



Bruce Harrell and Company, CPAs

A Professional Accounting Corporation

March 8, 1999