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CADDO SEWERAGE DISTRICT NO. 2
SHREVEPORT, LOUISIANA
FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

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 State Report office of the Louisiana Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUN 29 1998

CADDOPARAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

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Richard C. McCallister
CERTIFIED PUBLIC ACCOUNTANT

Member of
American Institute of
Certified Public Accountants

Society of Louisiana
Certified Public Accountants

Independent Auditor's Report

The Board of Commissioners
Caddo Sewerage District No. 7
Shreveport, Louisiana

I have audited the accompanying financial statements of Caddo Sewerage District No. 7, a component of Caddo Parish, Louisiana, as of and for the years ended December 31, 1997 and 1996, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounts 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. I believe that my audit provides a reasonable basis for my opinion.

As disclosed in Note 1, the financial statements present only Caddo Sewerage District No. 7 and are not intended to present fairly the financial position of Caddo Parish, State of Louisiana, and the results of its operations and cash flows of its proprietary fund types and non- expendable trust funds in conformity with generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Caddo Parish Sewerage District No. 7 as of December 31, 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 my report dated May 8, 1998 on my consideration of Caddo Sewerage District No. 7 Internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-113, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not required part of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



Richard C. McCallister
May 8, 1998

CARRO SEWERAGE DISTRICT NO. 2
BALANCE SHEETS
DECEMBER 31, 1997 AND 1996

<u>ASSETS</u>	<u>1997</u>	<u>1996</u>
Current assets		
Cash - unrestricted	125,888	161,596
Accounts receivable - Note 3	48,334	51,813
Prepaid expenses	5,512	3,218
	179,734	216,627
Restricted assets		
Cash		
Revenue Sinking Fund	28,351	29,685
Reserve Sinking Fund	155,157	181,358
Depreciation and Contingency Fund	147,649	152,858
Construction Fund	64,188	64,108
Customer deposits and permits	3,051	731
Ad Valorem Tax Collections - Note 4	82,777	78,511
DOTD Sinking Fund - Note 12	71,865	99,189
Certificate of Deposit - customer deposits	47,321	31,082
Accounts receivable - Ad valorem - Note 4	68,857	71,770
	663,328	801,857
Property, plant and equipment, at cost - Note 7		
Machinery and equipment	21,788	15,882
Sanitary systems	4,665,673	4,684,654
Land	33,880	35,080
Construction in progress	13,880	15,080
	4,735,321	4,688,576
Less: accumulated depreciation	1,246,582	1,102,818
	3,488,739	3,585,758
Other assets		
Deferred finance charge - Note 8	77,942	82,081
	4,412,662	4,405,125

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

LIABILITIES & FUND EQUITY

	1997	1996
Current liabilities (payable from current assets)		
Accounts payable	9,185	4,196
Total	<u>9,185</u>	<u>4,196</u>
Current liabilities (payable from restricted assets)		
Accrued interest - revenue bonds	25,206	22,518
Revenue bonds payable	40,871	48,066
Customer deposits and permits held	87,151	64,831
Accrued interest - general obligation bonds	12,645	15,027
General obligation bonds payable	25,090	20,080
Deduction from taxes - sewer	3,493	2,129
Construction payable	0	884
Total	<u>176,859</u>	<u>183,541</u>
Total current liabilities	<u>186,044</u>	<u>187,737</u>
Long-term liabilities		
Revenue bonds payable - Note 9	2,126,166	2,388,541
General obligation bonds payable - Note 9	680,080	625,089
Lease payable - Louisiana DOTD - Note 12	124,892	124,892
Total long-term liabilities	<u>2,931,238</u>	<u>3,140,431</u>
Total liabilities	<u>3,241,318</u>	<u>3,488,214</u>
Fund equity		
Contributed capital		
Federal EPA contribution	33,237	36,828
Louisiana grant	711,838	737,104
Total contributed capital	<u>745,075</u>	<u>773,942</u>
Retained earnings		
Reserved for general obligation bond retirement	112,787	187,285
Reserved for revenue bond current debt service	(43,796)	(32,939)
Reserved for revenue bond future debt service	153,157	141,180
Reserved for revenue bond debt service contingency	147,849	131,888
Unreserved retained earnings	<u>51,789</u>	<u>(16,188)</u>
Total retained earnings	<u>458,631</u>	<u>331,066</u>
Total fund equity	<u>1,178,704</u>	<u>1,091,308</u>
Total liabilities and equity	<u>4,412,042</u>	<u>4,413,722</u>

CARRO SEWERAGE DISTRICT NO. 7
STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Operating revenues		
Fees and charges for services	526,873	514,161
Operating expenses		
Personal services	61,144	52,944
Advertising, dues and subscriptions	418	1,524
Printing	1,310	681
Utilities	19,302	18,767
Communications	6,437	6,388
Rentals paid	4,808	4,880
Maintenance of property and equipment	72,462	81,444
Professional services	13,568	14,188
Insurance and surety bonds	13,618	13,651
Office expenses	5,805	4,768
Travel	5,823	5,029
Bad debts	143	84
Depreciation	141,568	137,392
Total operating expenses	798,868	851,965
Operating income	178,804	162,196
Non-operating revenue (expense)		
Interest income	19,125	17,488
Ad valorem taxes	71,391	73,361
Tax assessment changes	(2,082)	(2,254)
Interest and fiscal charges	(281,723)	(293,458)
Total non-operating revenue (expense)	(133,289)	(112,857)
Net income	65,585	49,339
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisitions and construction that reduces contributed capital	26,870	28,878
Increase in retained earnings	92,455	78,217
Retained earnings - beginning	333,166	264,157
Retained earnings - ending	425,621	342,374

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

CARRO SEWERAGE DISTRICT NO. 7
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1997	1996
Cash flows from operating activities		
Cash received from customers	528,857	517,898
Cash received from DODD		121,683
Cash payments to suppliers for goods and services	(134,681)	(175,214)
Cash payments for personal services	(81,585)	(32,944)
Cash payment for line relocation		(125,717)
	<u>329,696</u>	<u>284,738</u>
Net cash provided by operating activities - Note 15		
Cash flows from non-capital financing activities		
Deposits received from customers	3,328	(212)
	<u>3,328</u>	<u>(212)</u>
Net cash from non-capital financing activities		
Cash flows from capital and related financing activities		
Proceeds from ad valorem tax collections	71,713	69,621
Acquisition and construction of capital assets	(66,824)	(3,216)
Principal paid on revenue bonds	(53,376)	(33,656)
Interest paid on revenue bonds	(154,897)	(180,991)
Principal paid on general obligation bonds	(20,000)	(20,000)
Interest paid on general obligation bonds	(42,621)	(51,612)
	<u>(205,787)</u>	<u>(190,942)</u>
Net cash used for capital and related financing activities		
Cash flows from investing activities		
Interest on investments	15,172	17,486
	<u>15,172</u>	<u>17,486</u>
Net increase (decrease) cash and cash equivalents	83,518	110,664
Cash and cash equivalents at beginning of year	635,232	525,369
Cash and cash equivalents at end of year - Note 1	<u>718,750</u>	<u>636,033</u>

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

CADDO SEWERAGE DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Summary of significant accounting policies

The following is a summary of the significant accounting policies of the Corporation:

- a. Caddo Sewerage District No. 7 is a governmental subdivision of the Caddo Parish Commission. The report includes all funds controlled by Caddo Sewerage District No. 7. The District is considered a component unit of the Caddo Parish Commission, and will be included in the Commission's financial report for 1997. The District was formed to construct and operate a sewerage collection and treatment system North of Shreveport, Louisiana. The District serves approximately 1,500 customers and has one full-time employee. Its five board members are appointed by the Caddo Parish Commission and are compensated \$40 each per meeting attended. It is accounted for as an enterprise fund as the project is substantially financed through user fees. The District uses the accrual basis of accounting where revenues are recognized when earned and become measurable. Expenses are recognized when incurred.
- b. Cash and cash equivalents consist of all cash accounts identified as "Cash" under the classifications of current assets and restricted assets. All of these accounts qualify as cash or cash equivalents.
- c. Provisions for bad debts on receivables are provided currently, and identified bad debts are written off against the balances provided.
- d. Property, plant, and equipment are stated at cost. Depreciation is provided on assets in service using the straight-line method over their useful lives.

All costs associated with the construction of the system additions, including interest and financing costs, are capitalized. Financing costs associated with refunding bond issues are capitalized and amortized over the term of the bond issue.

Depreciation recognized on assets acquired with contributed capital is closed to the appropriate contributed capital account.
- e. All highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less are considered to be cash equivalents for the purposes of the statement of cash flows.
- f. Income taxes are not provided as the District is exempt from taxes being a governmental unit.
- g. The District has adopted a leave policy only as to vacation. The policy provides for accumulation and vesting of leave; however, no provision is made for accumulation and vesting of leave due to its small amount.

2. Restricted accounts receipts and disbursements

	Revenue \$/Units	Revenue \$/Units	Donor & Contrib	Ad Revenue	Contract	NET
Cash - January 1, 1997	25,682	141,360	173,868	70,211	22,682	39,143
Cash receipts:						
Transfers from operating account	198,240	9,912	9,912		24,800	12,608
Tax collections				71,451		
Interest on investments	1,181	4,083	3,891	2,558	1,031	1,778
Total cash receipts	<u>199,421</u>	<u>13,995</u>	<u>13,793</u>	<u>74,009</u>	<u>25,831</u>	<u>14,386</u>
Total cash available	<u>225,103</u>	<u>155,355</u>	<u>187,661</u>	<u>144,220</u>	<u>48,513</u>	<u>53,529</u>
Cash disbursements:						
Principal and interest	207,668			81,480		
Contracts, equipment and professionals					19,854	
Administrative	1,884		12	413		12
Total cash disbursements	<u>209,552</u>	<u>0</u>	<u>12</u>	<u>82,893</u>	<u>19,854</u>	<u>12</u>
Cash - December 31, 1997	25,682	155,152	187,649	82,717	47,771	52,842
Amounts required to be on deposit	24,132	149,228	171,282			
	Revenue \$/Units	Revenue \$/Units	Donor & Contrib	Ad Revenue	Contract	NET
Cash - January 1, 1998	24,412	117,848	119,981	66,224	7,261	45,686
Cash receipts:						
Transfers from operating account	198,240	9,912	9,912		24,800	12,608
Receipts from BQYD					121,483	
Tax collections				69,612		
Interest on investments	1,181	4,208	3,873	4,662	786	1,494
Total cash receipts	<u>199,421</u>	<u>14,120</u>	<u>13,785</u>	<u>74,274</u>	<u>147,369</u>	<u>14,102</u>
Total cash available	<u>223,833</u>	<u>131,968</u>	<u>133,766</u>	<u>140,498</u>	<u>154,680</u>	<u>59,788</u>
Cash disbursements:						
Principal and interest	190,446			61,862		
Contracts, equipment and professionals					120,430	
Administrative	180			158		12
Total cash disbursements	<u>190,626</u>	<u>0</u>	<u>0</u>	<u>62,020</u>	<u>120,430</u>	<u>12</u>
Cash - December 31, 1998	25,682	141,158	171,869	78,211	31,882	48,822
Amounts required to be on deposit	24,132	135,182	171,644			

3. Collateralization of cash accounts

Cash deposits at Premier Bank NA are collateralized as follows at December 31, 1997 and 1996:

	1997	1996
Fair market value of securities pledged	660,000	546,358
Current FDIC coverage	<u>100,000</u>	<u>100,000</u>
Total collateral	760,000	646,358
Collateral cash balances	<u>732,937</u>	<u>591,861</u>
Collateralization excess	<u>27,063</u>	<u>54,497</u>

4. Fund deficit

At December 31, 1997, the unreserved deficit totals \$16,188. The board has set a rate structure that provides the cash flow sufficient to cover its operations and its rate covenants in its bond maturations. With the passage of time, this deficit will reverse itself.

5. Accounts receivable

Accounts receivable customers at December 31, 1997 and 1996 consists of the following:

	1997	1996
Accounts receivable - customers	51,754	51,081
Allowance for bad debts	(2,400)	(2,480)
Accounts receivable - interest income	<u>0</u>	<u>8,132</u>
Total accounts receivable	<u>49,354</u>	<u>56,733</u>

6. Ad Valorem Taxes

An ad valorem tax is levied in October each year for the fiscal year and becomes delinquent after December of the same year. Taxes are collected by the Cook County Sheriff's office and forwarded to the District after removal of tax assessor charges. Ad Valorem tax revenue is recognized when levied.

	1997	1996
Assessed valuation within District - net Millage	3,956,650	3,884,718
	<u>18.00</u>	<u>20.00</u>
Taxes levied	71,228	77,694
Less: Estimate of uncollectibles	1,424	1,474
Amounts already collected	<u>138</u>	<u>138</u>
Accounts receivable - ad valorem	<u>69,932</u>	<u>76,112</u>

All Valerem taxes are assessed to retire the general obligation bonds of the District. The District has \$152,436 in net current assets at December 31, 1997 to cover \$20,647 in 1998 maturing principal and interest. Based on the current property valuation within the District, subsequent refuge requirements should approximate fourtons.

7. Excess Assets

The District completed construction of its first phase of sewer system January 1, 1983 at a cost of \$1,687,838. The second phase was completed December 1, 1989, at a cost of \$1,843,274. Substantial additions were completed during 1999 at a cost of \$853,943. Constructed systems are being depreciated on a straight-line basis of 25 years.

8. Deferred Finance charges

In conjunction with the 1991 sewer revenue refunding bond issue, \$100,825 of refinancing costs were incurred. These costs are being amortized on a straight-line basis over the term of the new bond issue. For the years ended December 31, 1997 and 1998, amortization of these costs was \$4,139 and is included in interest expense.

9. Changes in long-term debt

The following is a summary of bond transactions of the District for the years ending December 31, 1997 and 1998:

	General Obligation		Revenue	
	1997	1998	1997	1998
Bonds payable - beginning of year	640,808	653,808	2,428,607	2,454,263
Less bonds retired	<u>28,808</u>	<u>28,808</u>	<u>33,378</u>	<u>33,638</u>
Bonds payable - end of year	625,000	645,000	2,397,237	2,420,625
Less portion classified as current	<u>25,000</u>	<u>30,000</u>	<u>40,821</u>	<u>40,666</u>
Long-term portion	<u>600,000</u>	<u>625,000</u>	<u>2,356,356</u>	<u>2,380,541</u>

Bonds payable at December 31, 1997 and 1996 are comprised of the following individual issues:

	1997	1996
General obligation bonds serviced through Ad valorem tax collections:		
\$365,000 1983 bonds due in annual installments of principal and interest of approximately \$21,000 through 2023; interest at 7%	360,000	365,000
\$420,000 1988 bonds due in annual installments of principal and semi-annual installments of interest totaling approximately \$41,000 each year through 2009; interest is variable by year and averages 8% over the entire term	<u>325,000</u>	<u>340,000</u>
Total general obligation bonds	<u>685,000</u>	<u>705,000</u>
Revenue bonds:		
\$528,000 1983 sewer revenue bonds due in annual installments of principal and interest of approximately \$30,000; through 2023; interest at 7%	418,000	448,000
\$1,315,000 1989 sewer revenue bonds due in annual installments of principal and interest of \$95,631 through 2028; interest at rates below:		
1989 @ 10%	947,231	965,294
1989a @ 8%	<u>367,769</u>	<u>398,513</u>
\$505,000 1990 sewer revenue refunding bonds due in annual installments of principal and interest of approximately \$30,000 through 2036; average interest at 7.1%	<u>720,000</u>	<u>740,000</u>
Total revenue bonds	<u>2,187,237</u>	<u>2,430,687</u>

After considering the 1998 general obligation refunding issue, the net requirements to amortize all bond debt outstanding at December 31, 1997, including interest payments of \$3,023,797 are as follows:

<u>Year ending December 31</u>	<u>Obligation</u>	<u>Revenues</u>	<u>Total</u>
1998	187,000	198,611	385,614
1999	32,108	194,891	246,999
2000	49,873	193,121	242,996
2001	32,573	196,351	248,926
2002	51,173	198,351	249,526
2003 - 2028	<u>649,680</u>	<u>4,078,281</u>	<u>4,727,961</u>
Total	<u>962,548</u>	<u>5,093,486</u>	<u>6,016,034</u>

10. Rate covenant/debt service charge

In accordance with the District's bond resolution authorizing the issuance of its refunding bonds, the District, through its Board of Commissioners, covenants to fix, establish and maintain such rates and collect such fees, costs or other charges for the services and facilities of the systems, and all parts thereof, and to revise the same from time to time whenever necessary, and will always provide revenues in each year sufficient to pay the reasonable and necessary expenses of operating and maintaining the systems in each year, the principal and interest maturing on the Bonds and the Parity Bonds in each year, all reserves or sinking funds or other payments required for each year by the Bond Resolution, and all other obligations or indebtedness payable out of the revenues of the systems for each year, and which will provide revenues in each year after paying all reasonable and necessary expenses of operating and maintaining the systems in each year, at least equal to 120% of the largest amount of principal and interest maturing in any future fiscal year on the Bonds and the Parity Bonds.

On April 1, 1998, the District issued \$257,000 of general obligation sewer refunding bonds. The proceeds were used to redeem \$395,000 of 1992 general obligation bonds. The cost of the issuance approximated \$6,000; however, the present value of the net savings was estimated to be \$39,000. An additional principal payment in the amount of \$50,000 was drawn from the Ad Valorem tax cash account in the refunding.

Debt service coverage for the year ended December 31, 1997 is calculated below:

Largest principal and interest maturing in any fiscal year	198,251
Rate coverage	<u>1.00%</u>
Required debt service coverage	<u>237,981</u>
Operating income	176,884
Add: Depreciation	141,949
Interest on revenue accounts	12,424
Less: Paying agent fees included in fiscal charges	<u>(1,880)</u>
Debt service coverage	<u>328,797</u>

11. **Flow of funds, investments and restricted activities:**

Under the terms of the bond indenture on outstanding Sewer Revenue Bonds, all income payments (hereinafter referred to as revenues) of every nature, earned or derived from operations of the Utility System are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

Revenues is first deposited in Sewer Revenue Fund and shall first provide for the payment of the reasonable and necessary expenses of operating and maintaining the system.

Each month, there will be set aside into a fund called the "Bond and Interest Sinking Fund" an amount consisting 1/12 of the next maturity installment of principal and 1/12 of the next maturing installment of interest on the outstanding bonds. Such amount shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments.

There shall also be set aside into a "Sewer Reserve Fund" an amount equal to 5% of the principal and interest payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount equal to the maximum principal and interest requirements in any one maturity year.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund and as to which there would otherwise be default.

Funds will also be set aside into a Depreciation and Contingency Fund an amount equal to 5% of the principal and interest payments required during each fiscal year. Money in the Fund may be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition and for which money is not available as a maintenance or operation expense. Money in this fund may also be used to pay principal or interest on the bonds falling due at any time there is not sufficient money for payment in the other bond funds.

12. Loans payable - DOTD

The Louisiana Department of Transportation and Development (DOTD) has loaned the District \$234,882 pursuant to Act 219 of the Louisiana Legislature. The funds were used to relocate sewerage lines. The Act does not have any stated repayment terms or interest rates. DOTD can demand repayment when the District permits any additions in a state maintained highway right-of-way. A separate fund called "DOTD Sinking Fund" was started during 1991 for eventual repayment of this loan if necessary. The District plans to place \$1,800 per month in such fund. At December 31, 1997, the account balance was \$72,865.

13. Pension Plan

The District has adopted a Simplified Employee Pension Individual Retirement Accounts Contribution Agreement. The plan calls for discretionary contributions in each calendar year to the Individual Retirement Accounts of all eligible employees who are at least 21 years old and have 6 months service. Total payroll for the year ended December 31, 1997 was \$31,680 of which \$26,387 was covered by the plan. The policy of the District is to contribute to the plan a percentage of covered payroll equal to the employer's portion of taxes that would have been due under Social Security. Such percentage was 7.65% and contributions of \$1,991 were paid to the plan.

14. Payments to Commissioners

The following is a schedule of commissioners of the District and amounts paid them per diem for the year ended December 31, 1997:

<u>Commissioner</u>	<u>Per Diem</u>	<u>Term Expiration</u>
George Wilson	780	11-1-2000
Billy Dearing	840	11-1-2000
Calvin D Millender	900	11-1-1999
Catherine B Hall	900	11-1-1998
Kenneth W Todd	900	11-1-2000
Total	<u>4,640</u>	

15. Statement of cash flows

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

	1997	1996
Operating income	135,884	162,196
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	141,649	137,592
Change in assets and liabilities:		
Accounts receivable	7,659	46,972
Prepaid expenses	(297)	225
Accounts payable	4,125	(62,047)
Net cash provided by operating activities	<u>329,660</u>	<u>284,738</u>

16. Risks of loss

Risks of loss are covered through the acquisition of commercial insurance. The District has incurred only small claims in the past for damages that were substantially covered by insurance.

Schedules of insurance coverage in effect at December 31, 1997 and 1996 are as follows:

Company	Type	Coverage	Effective Dates	Effective Dates
Scottsdale Ins.	Commercial Liability	600,000	3-97 / 3-98	7-96 / 7-97
State Farm	Fidelity Bond	500,000	4-97 / 4-98	3-96 / 3-97
Lloyds of London	Commercial Property	386,600	4-97 / 4-98	4-96 / 4-97
L.A. Work Comp	Workmen's Comp	Statutory	3-97 / 3-98	3-96 / 3-97

17. Contingents and contingencies

In the event the District permits with the DOTD for any subsequent construction, items totaling \$134,893 at December 31, 1997 become payable on demand by the DOTD. Funds set aside in the DOTD visiting fund in the amount totaling \$71,865 (through December 31, 1997), have been provided for this contingency.

The District received its water discharge permit from the Louisiana Department of Environmental Quality (DEQ) effective June 24, 1994. The permit set effluent discharge limitations which the current system is unable to meet without modifications. A project will be required to be completed no later than June 25, 1999. The project's estimated cost ranges from \$800,000 to \$1,500,000. At December 31, 1997, the District was informed their application for a \$738,600 loan from the Farmers Home Administration is likely to be eligible. The District is also pursuing a LCDBG Block Grant for \$1,000,000.

CARDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1997

Federal Grant/Pass-through Grant/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements Expenses
U.S. Department of Agriculture Forestry Home Administration Loan Sews Construction	10.760	N/A	0

Note to schedule:

The U.S. Department of Agriculture is the registered owner of the following bond issues stated at the principal balances at December 31, 1997:

1982 General Obligation Bonds	380,000
1982 Sewer Revenue Bonds	438,000
1989 Sewer Revenue Bonds	847,231
1989A Sewer Revenue bonds	<u>261,000</u>
Total bonds	<u>1,927,231</u>

Richard C. McCallister
CERTIFIED PUBLIC ACCOUNTANT

Member of
American Institute of
Certified Public Accountants

Member of Louisiana
Certified Public Accountants

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

The Board of Directors
Caldro Sewerage District No. 7
Shreveport, Louisiana

I have audited the financial statements of Caldre Sewerage District No. 7, Shreveport, Louisiana, a component unit of Caldo Parish, Louisiana, as of and for the years ended December 31, 1997 and 1998 and have issued my report thereon dated May 8, 1998. I have conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether Caldre Sewerage District No. 7 financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Caldre Sewerage District No. 7 internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. I noted no matters involving the internal control structure over financial reporting and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over financial reporting that I have reported in the accompanying schedule of findings, and questioned costs.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.



Richard C. McCallister
Shreveport, Louisiana
May 8, 1998

Richard C. McCallister

CERTIFIED PUBLIC ACCOUNTANT

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American Institute of
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Society of Louisiana
Certified Public Accountants

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

Board of Commissioners
Caddo Sewerage District No. 7
Shreveport, LA

Compliance:

I have audited the compliance of Caddo Sewerage District No. 7, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to each of its major federal programs for the years ended June 30, 1997 and 1998. Caddo Sewerage District No. 7 major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Caddo Sewerage District No. 7 management. My responsibility is to express an opinion on Caddo Sewerage District No. 7 compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caddo Sewerage District No. 7 compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion; my audit does not provide a legal determination on Caddo Sewerage District No. 7 compliance with those requirements.

In my opinion, Caddo Sewerage District No. 7 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 1997 and 1998.

Internal Control over Compliance

The management of Caddo Sewerage District No. 7 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Caddo Sewerage District No. 7's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over compliance and its operation that I have reported in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Richard C. McCallister
Shreveport, LA
May 8, 1998

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 1997

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Sewerage District No. 7.
2. One reportable condition relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Caddo Sewerage District No. 7 were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal award program is reported in the Report on Compliance with Requirements Applicable to such Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for Caddo Sewerage District No. 7 expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for Caddo Sewerage District No. 7 are reported in Part C of this schedule.
7. The programs tested as major programs include U. S. Department of Agriculture Loan Saver Construction 10.768.
8. The threshold for distinguishing Types A and B programs was \$1,947,213.
9. Caddo Sewerage District No. 7 was not determined to be a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

1. Segregation of duties

Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes, are missing in the system.

Criteria: When practical, personnel should have appropriate segregation of duties.

Effect: Accounting controls over accounts receivable, collections, and general ledger accounting are compromised.

Recommendation: There is no recommendation at this time.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

U. S. Department of Agriculture, CFDA No. 16.768

1. Loan Saver Construction Account year ended December 31, 1997

Reportable Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes, are missing in the system.

Criteria: When practical, personnel should have appropriate segregation of duties.

Effect: Accounting controls over accounts receivable, collections, and general ledger accounting are compromised.

Recommendation: There is no recommendation at this time.

**CADDO SEWERAGE DISTRICT NO. 7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 1996**

U.S. DEPARTMENT OF AGRICULTURE

1996 – Farmers Home Administration Loan Sewer Construction 10.760

Receivables and reconciling

Condition: Due to a computer software limitation, customer histories were being deleted from the system without a sufficient documentation of the data being deleted. Reconciliation of the general ledger account for customer receivable to the detail in the computer was not being performed. The reconciliation was necessary to control the numerous billing and receipts on customer accounts.

Recommendation: This practice should be eliminated with new software. Account histories should be maintained as long as possible and deleted only after reducing the customer's history to paper. 

Current Status: This practice has ceased. In addition, new computer software has been acquired that will improve the control over receivables and the reconciliation is being performed by the District's outside accounting firm.

Expenditures

Condition: Checks were being prepared for the convenience of District employees.

Recommendation: The policy of signing checks only after proper review of documentation must be adhered to.

Current Status: The policy of signing checks only after proper review of documentation appears to be adhered to.

Capital expenditures

Condition: The District incurred substantial interest costs relating to a construction contract in which the legality of the amount of interest charges were in question.

Recommendation: The District's legal counsel should review any contracts before they become binding.

Current Status: The Board determines on a case by case basis whether legal counsel is necessary in the execution of contracts and agreements.

Other receipts

Condition: Miscellaneous claims for reimbursement were being uncollected and unrecorded in the general ledger.

Recommendation: Board members should be made aware of any potential claims and their progress at monthly meetings.

Current Status: Claims are now booked in the general ledger and their status is included in the Board members' information packet for each meeting.

General Ledger accounting

Condition: Substantial adjustments were required to complete the audit for the prior year. The financial information was insufficient for the Board to evaluate the financial performance.

Recommendation: Accurate interim financial accounting is necessary for management and the board to evaluate financial performance and budget variations.

Current Status: A new accounting firm was hired to complete the general ledger accounting and sufficient information is now available.

CADDO SEWERAGE DISTRICT NO. 7
P O BOX 7686
SHREVEPORT, LA 71137

May 8, 1998

CORRECTIVE ACTION PLAN

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana

Farmers Home Administration
Crescent, Louisiana

Caddo Sewerage District No. 7 respectfully submits the following corrective action plan for the year ended December 31, 1997.

Name and address of accounting firm:
Richard C. McCalister, CPA
P O Box 4486
Shreveport, LA 71134

Audit period:
December 31, 1997

The findings from the December 31, 1997 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

1. Segregation of duties

Due to the District being limited to one person involved in the operation of the office, most of these aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes are missing in the system.

Action Taken: No action is being taken at this time.

C. FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

U. S. DEPARTMENT OF AGRICULTURE CFDA No. 18.760

1. *Local Sewer Construction Account year ended December 31, 1997*

Reportable Condition: See B.1.

Very truly yours,

CADDO SEWERAGE DISTRICT NO. 7

By: Johan W. Williams