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Financial Report
Gravity Drainage District No. 1
Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
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 Easton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

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Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council

December 31, 1998

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
Gravity Drainage District No. 1
Livingston Parish, Louisiana.

I have audited the accompanying general purpose financial statements of Gravity Drainage District No. 1 of Livingston Parish, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the Gravity Drainage District's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

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

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Gravity Drainage District No. 1 of Livingston Parish, Louisiana, as of December 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report (see page 3) dated March 25, 1999 on my consideration of Gravity Drainage District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The disclosure about the year 2000 issue in Schedule 1 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it. In addition, I do not provide assurance that Gravity Drainage District No. 1 of Livingston Parish, Louisiana, is or will become year 2000 compliant, that Gravity Drainage District No. 1's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Gravity Drainage District No. 1 does business are or will become year 2000 compliant.

Mie G. Ferrari, CPA

Baton Rouge, Louisiana,
March 25, 1999.

NEIL G. FERRARI

CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners of
Gravity Drainage District No. 1
Livingston Parish, Louisiana.

I have audited the general purpose financial statements of Gravity Drainage District No. 1 of Livingston Parish, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 1998, and have issued my report thereon dated March 25, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gravity Drainage District No. 1 of Livingston Parish, Louisiana's, general purpose financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Gravity Drainage District No. 1 of Livingston Parish, Louisiana's, 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 over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, the Livingston Parish Council, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Neil B. Fenari, CPA

Baton Rouge, Louisiana
March 25, 1999.

GENERAL PURPOSE FINANCIAL STATEMENTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

December 31, 1998

	Governmental Fund Types		Account Groups		Total (Memorandum Only)
	General Fund	Debt Service Fund	General Fixed Assets	General Long-Term Debt	
ASSETS AND OTHER DEBITS					
Assets:					
Cash and cash equivalents	\$ 37,288	\$ 24,272	\$ 0	\$ 0	\$ 61,560
Restricted:					
Cash with fiscal agent	0	2,507	0	0	2,507
Investments	574,275	113,300	0	0	687,575
Revenues receivable:					
Ad valorem tax	116,658	43	0	0	116,701
Sales tax	23,589	0	0	0	23,589
Revenue sharing	9,265	0	0	0	9,265
Deposits	973	0	0	0	973
Building, equipment & vehicles	0	0	627,034	0	627,034
Other debits:					
Amount available in Debt Service Fund	0	0	0	129,093	129,093
Total assets and other debits	\$ 762,048	\$ 140,122	\$ 627,034	\$ 129,093	\$ 1,658,297
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Liabilities:					
Accounts payable	\$ 10,196	\$ 0	\$ 0	\$ 0	\$ 10,196
Bonds payable	0	0	0	120,000	120,000
Capital lease obligation	0	0	0	9,093	9,093
Total liabilities	10,196	0	0	129,093	139,289
Equity and Other Credits:					
Investment in general fixed assets	0	0	627,034	0	627,034
Fund balances:					
Reserved for debt service	0	140,122	0	0	140,122
Designated for Gray's Creek Diversion Project	110,683	0	0	0	110,683
Unreserved/undesignated	641,169	0	0	0	641,169
Total equity and other credits	751,852	140,122	627,034	0	1,519,008
Total liabilities, equity and other credits	\$ 762,048	\$ 140,122	\$ 627,034	\$ 129,093	\$ 1,658,297

The accompanying notes are an integral part of this statement.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES**

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council

Denham Springs , Louisiana

For the Year Ended Decmeber 31, 1998

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total (Memorandum Only)</u>
REVENUES			
Taxes:			
Sales	\$290,905	\$0	\$290,905
Ad valorem	152,780	2,639	155,419
Interest on ad valorem taxes	1,415	187	1,602
Intergovernmental:			
State of Louisiana revenue sharing	27,649	0	27,649
Investment income	35,404	5,744	41,148
 Total revenues	 <u>\$508,153</u>	 <u>\$8,570</u>	 <u>\$516,723</u>
 EXPENDITURES			
Current:			
Salaries	\$162,440	\$0	\$162,440
Insurance	40,461	0	40,461
Employee benefits	28,024	0	28,024
Professional services	27,499	0	27,499
Payroll taxes	12,936	0	12,936
Truck operations and maintenance	9,237	0	9,237
Equipment rental	7,639	0	7,639
Sales tax collection fees	5,820	0	5,820
Contribution to pension plan for parochial employees	5,798	0	5,798
Materials and supplies	5,818	0	5,818
Office expense	5,066	0	5,066
Commissioners per diem	5,040	0	5,040
Uniforms	2,739	0	2,739
Other	413	169	582
Debt service:			
Principal retirement	9,274	40,000	49,274
Interest	998	8,260	9,258
Capital outlay	191,519	0	191,519
 Total expenditures	 <u>520,721</u>	 <u>48,429</u>	 <u>569,150</u>
 Excess of expenditures over revenues	 (12,568)	 (39,859)	 (52,427)
 Fund balances at beginning of year	 <u>764,420</u>	 <u>179,981</u>	 <u>944,401</u>
 Fund balances at end of year	 <u>\$751,852</u>	 <u>\$140,122</u>	 <u>\$891,974</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

For the Year Ended December 31, 1998

	Revised Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES			
Taxes:			
Sales	\$280,000	\$290,905	\$10,905
Ad valorem	142,000	152,780	10,780
Interest on ad valorem taxes	1,400	1,415	15
Intergovernmental:			
State of Louisiana revenue sharing	27,600	27,649	49
Investment income	31,000	35,404	4,404
 Total revenues	 \$482,000	 \$508,153	 \$26,153
EXPENDITURES			
Current:			
Salaries	164,000	162,440	1,560
Insurance	41,500	40,461	1,039
Employee benefits	26,300	28,024	(1,724)
Professional services	21,000	27,499	(6,499)
Payroll taxes	13,000	12,936	64
Truck operations and maintenance	9,000	9,237	(237)
Equipment rental	6,000	7,639	(1,639)
Sales tax collection fees	5,500	5,820	(320)
Contributions to pension plan for parochial employees	5,000	5,798	(798)
Materials and supplies	7,000	5,818	1,182
Office expense	5,800	5,066	734
Commissioners per diem	5,000	5,040	(40)
Uniforms	2,800	2,739	61
Other	1,100	413	687
Debt service:			
Principal retirement	9,300	9,274	26
Interest	1,000	998	2
Capital outlay:			
Infrastructure	40,000	45,313	(5,313)
Equipment used in general operations	135,700	146,206	(10,506)
 Total expenditures	 499,000	 520,721	 (21,721)
 Excess of expenditures over revenues	 (17,000)	 (12,568)	 \$4,432
 Fund balance at beginning of year	 764,420	 764,420	
Fund balance at end of year	\$747,420	\$751,852	

The accompanying notes are an integral part of this statement.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

December 31, 1998

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Nature of Operations:

Gravity Drainage District No. 1 of Livingston Parish, Louisiana ("District") was created November 22, 1969, by the Livingston Parish Council, as provided by Louisiana Revised Statute 38:1751. The District is governed by a board of five commissioners who are appointed by the Livingston Parish Council. There were 8 people employed by the District in 1998, not including its commissioners. The District is authorized to construct, maintain and improve the system of gravity drainage within Ward Two of Livingston Parish, Louisiana.

b. Reporting Entity:

The Livingston Parish Council is the financial reporting entity for Livingston Parish, Louisiana. The Livingston Parish Council appoints a voting majority of the District's governing body and can impose its will on the District. Accordingly, the District has been determined to be a component unit of the Livingston Parish Council. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Livingston Parish Council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity for Livingston Parish, Louisiana.

The District has no entities or organizations which are required to be included in its financial report as component units as defined by Governmental Accounting Standards Board Statement 14.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

c. Basis of Statement Presentation:

The accounting and reporting policies of the Gravity Drainage District No. 1 of Livingston Parish, Louisiana, conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, the accounting and reporting procedures conform to the requirements of Louisiana Revised Statutes 24:514, the Louisiana Governmental Audit Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

d. Fund Accounting:

The District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain governmental functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds of the District are classified as governmental funds. Governmental funds account for the District's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. The governmental funds presented in the financial statements are described as follows:

Governmental Fund Types

General Fund:

The General Fund is the general operating fund of Gravity Drainage District No. 1 and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid for through other funds are paid from the General Fund.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Governmental Fund Types - (continued)

Debt Service Fund:

The Debt Service Fund is used to account for transactions relating to resources retained and used for the payment of interest and principal on those long-term obligations recorded in the General Long-Term Debt Account Group.

e. Account Groups:

An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The following two account groups are not "funds".

General Fixed Assets:

The fixed assets used in governmental fund type operations of Gravity Drainage District No. 1 are accounted for (capitalized) in the General Fixed Assets Account Group and are recorded as expenditures (capital outlays) in the governmental fund types when purchased or constructed.

General Long-Term Debt:

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Principal and interest payments on long-term liabilities (public improvement bonds and capital lease obligations) are also accounted for in the Debt Service Fund.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

f. Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financial uses) in net current assets. The modified accrual basis of accounting is used by the governmental funds. The governmental funds use the following practices in recording revenues, expenditures, and transfers.

Revenue Recognition

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become available and measurable. Available means due or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (normally within 60 days).

The following are the revenue recognition policies used by the Gravity Drainage District No. 1:

- The District's ad valorem property tax is levied each November 15 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. This tax becomes delinquent on January 1 of the following year. The assessed value of the taxable property on the tax roll as of January 1, 1998, was \$36,786,570. The tax rates assessed for 1998 to finance General Fund operations was \$.50 per \$100 of property valuation. There was no assessment for the payment of principal and interest on the public improvement bonds because sufficient funds have already been collected to pay these debts as they mature.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

f. Basis of Accounting: - (continued)

The taxes are generally collected in December of the current year and January and February of the following year. During May (of the year after the year when the tax was due), properties with delinquent taxes are advertised for auction by the Parish Sheriff. The auction is normally scheduled for June or July. It is at this time a lien is placed on the property. Properties not sold at the auction are adjudicated to the State of Louisiana. Ad valorem taxes are recognized as revenue in the current year if collected within sixty days after the end of the year.

■ State revenue sharing, which is based on population and homesteads in Livingston Parish for the Gravity Drainage District No. 1, was \$27,596 for calendar year 1997 and \$27,795 for calendar year 1998. Although these amounts are measurable at the end of the year for which they are calculated, they are not considered available unless payments are received by the District within 60 days after the end of the year. \$9,212 of the 1997 revenue sharing was recognized as revenue in 1997 because it was received within 60 days after the end of the year and the remaining \$18,384 was recognized as revenue in 1998. \$9,265 of the 1998 revenue sharing was also recognized as revenue in 1998 because it was received within 60 days after the end of the year.

■ Interest income earned on idle cash and investments is recorded when it is both measurable and available.

■ Grant revenues are recorded when Gravity Drainage District No. 1 is entitled to reimbursement of expenditures under the terms of the grant.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

f. Basis of Accounting: - (continued)

- Sales tax revenue is recognized when it is both measurable and available to finance expenses of the fiscal period. Therefore, sales tax revenues for 1997 that were remitted to the Gravity Drainage District No. 1 in January or February, 1998 are included in 1997 revenue, and sales tax revenues for 1998 that were remitted to the District in January or February, 1999 are included in 1998 revenue.

Expenditures

Expenditures, other than principal and interest on long-term debt, are recognized in the accounting period in which the liability is incurred, if measurable.

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses). They are recorded when the transfer is made.

g. Budgetary Policy and Budgetary Accounting:

The District prepares an annual operating budget on the modified accrual basis for general activities which is consistent with generally accepted accounting principles (GAAP).

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Before the second Tuesday of November, the District prepares a budget for the next fiscal year which begins January 1. The operating budget includes proposed expenditures and the means of financing them.
- The board members discuss the proposed budget at the regular meeting of the Board of Commissioners on the second Tuesday of November and set the date for the special public hearing on the proposed budget.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

g. Budgetary Policy and Budgetary Accounting: -
(continued)

■ The public hearing to review and discuss the budget is held immediately before the regular meeting of the Board of Commissioners on the second Tuesday in December. The public hearing for the District's 1998 budget was held on December 9, 1997. The public hearing for the District's 1999 budget was held December 8, 1998.

■ During its regular meeting that follows the public hearing, the Board of Commissioners adopts the budget.

Once the budget is approved, it can be amended by approval of a majority of the Board of Commissioners. The process of presenting and approving budget amendments follows a procedure similar to the one used to adopt the initial budget.

There was one amendment made to the budget that was initially adopted for 1998. The amendment was approved at a regular meeting of the District's Board of Commissioners on December 8, 1998. All budget appropriations lapse at year end.

h. Cash, Cash Equivalents, and Investments:

Cash includes petty cash and amounts in demand deposits. Cash equivalents include amounts in certificates of deposit with original maturities of three months (90 days) or less.

Investments are stated at cost, except for investments in mutual funds which are carried at redemption value. At year end, investments consisted of cash invested in certificates of deposit with maturities of greater than three months(90 days), a money market mutual fund, and a mutual fund comprised entirely of U.S. government securities.

i. Prepaid Items:

Prepaid items are accounted for as expenditures in the period when the money is disbursed.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

j. General Fixed Assets and Depreciation:

General fixed assets include any land, buildings, equipment, and vehicles owned by the District. All fixed assets are valued at historical cost or estimated historical cost, if historical cost is not available. No costs have been estimated because historical cost information was available for all fixed assets. In cases where assets are constructed with borrowed money the interest expense paid on the related debt is capitalized as part of the cost of the asset. No depreciation has been provided on assets in the General Fixed Assets Account Group.

It is the District's policy to capitalize purchases of moveable property costing at least \$250 and purchases of real property and improvements costing at least \$1,500. Purchases of moveable property costing less than \$250 may also be capitalized for internal control purposes.

k. Infrastructure:

Gravity Drainage District No. 1 has elected to not capitalize infrastructure. Infrastructure, or public domain general fixed assets, are immovable assets generally of value only to the state or local government. Drainage systems are considered infrastructure. Therefore, new drainage systems and major improvements to existing systems, including related permit applications and environmental impact mitigation fees, are recorded as capital outlays of the General Fund but are not included in the General Fixed Asset account group.

l. Vacation and Sick Leave:

All permanent full-time employees earn from 10 to 20 days of vacation leave each year on their anniversary date depending upon the number of years employed. All permanent full-time employees earn from 5 to 45 days of sick leave each year depending upon the number of years employed. Vacation and sick leave cannot be accumulated beyond one year. Gravity Drainage District No. 1 has not accrued any expenses relating to unused leave in the financial statements because earned but unused vacation was

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

1. Vacation and Sick Leave:- (continued)

not a significant amount. The cost of current leave privileges, computed in accordance with GASB codification Section C60, is recognized as a current year expenditure in the General Fund when the leave is actually used.

m. Transfers and Interfund Loans:

Advances between funds which are not expected to be repaid are accounted for as transfers. In those cases where repayment is expected, the advances are accounted for through various "due from" and "due to" accounts.

n. Reservations and Designations of Fund Balances:

Reserved fund balances represent those portions of the fund balance which are either not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources as approved by the Board of Commissioners.

o. Management's Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

p. Total Column on the Statements:

The total columns in the General Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2 - CASH AND CASH EQUIVALENTS

At December 31, 1998, the District has unrestricted cash and cash equivalents totaling \$61,560, as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Petty cash	\$ 100	\$ -	\$ 100
Interest bearing demand deposits at Hancock Bank	<u>37,188</u>	<u>24,272</u>	<u>61,460</u>
Totals	<u>\$ 37,288</u>	<u>\$24,272</u>	<u>\$ 61,560</u>

The cash and cash equivalents hereabove are stated at cost, which is equal to market. The interest bearing demand deposits at Hancock Bank are represented by 2 accounts which, when combined as of December 31, 1998, had collected bank balances of \$78,715. All of these bank deposits are covered entirely by federal deposit insurance at the balance sheet date. GASB Statement 3 categorizes the credit risk of the Hancock Bank deposits as Category 1 because they are fully insured.

Petty cash of \$100 is unsecured.

The District also has \$2,507 of restricted cash on deposit with its fiscal agent which is covered entirely by federal deposit insurance thereby making it a Category 1 credit risk. The \$2,507 of cash is reported as a restricted asset of the Debt Service Fund on the combined balance sheet.

Note 3 - INVESTMENTS

The District's primary purpose for investing is to earn interest income on money that has been determined to be in excess of immediate cash needs. State statutes authorize the District to invest temporarily idle monies in the following:

1. United States Treasury Bonds.
2. United States Treasury Notes.
3. United States Treasury Bills.
4. Obligations of U.S. Government Agencies, including such instruments as Federal Home Loan Bank bonds, Government National Mortgage Association bonds, or a variety of "Federal Farm Credit" bonds.

Note 3 - INVESTMENTS - (continued)

5. Fully collateralized certificates of deposit issued by qualified commercial banks and savings and loan associations located within the State of Louisiana.
6. Fully collateralized repurchase agreements.
7. Fully collateralized interest-bearing checking accounts.
8. Mutual or Trust Fund institutions which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States Government or its agencies.
9. Any other investment allowed by state statute for local governments.
10. Louisiana Asset Management Pool (LAMP).

Investments at December 31, 1998 consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Maturity</u>	<u>Interest Rate</u>
General Fund:				
Certificates of deposit:				
Hibernia National Bank	\$150,000	\$150,000	03/25/99	5.00%
Hibernia National Bank	110,683	110,683	03/08/99	4.50%
Hibernia National Bank	87,678	87,678	06/14/99	4.50%
Hibernia National Bank	81,052	81,052	03/29/99	4.60%
Mutual Funds:				
Daily Passport Cash Trust	75,405	75,405	Demand	4.25%
Putnam U.S. Govt. Income Trust	<u>69,457</u>	<u>69,457</u>	Demand	Various
Total General Fund	<u>574,275</u>	<u>574,275</u>		
Debt Service Fund:				
Certificate of deposit:				
Hibernia National Bank	<u>113,300</u>	<u>113,300</u>	01/19/99	5.27%
Total Debt Service Fund	<u>113,300</u>	<u>113,300</u>		
Total all funds	\$687,575 =====	\$687,575 =====		

Note 3 - INVESTMENTS - (continued)

Under state law, bank deposits must be secured by federal deposit insurance or the pledge of securities which are owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. The pledged securities are to be held in the name of the pledging fiscal agent bank at a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 1998, the District had invested \$542,713 in certificates of deposit, all at Hibernia National Bank. These deposits are secured from risk by \$100,000 of federal deposit insurance (Category 1). The remaining \$442,713 is secured by securities with a fair market value of \$484,264 which have been pledged by Hibernia National Bank. GASB Statement 3 categorizes the \$442,713 as uncollateralized risk (Category 3) because the securities are not in the District's name even though the securities were being held by a custodial bank on behalf of Hibernia National Bank. Although \$442,713 of bank balances are considered uncollateralized (Category 3), Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank (entity holding the pledged securities) to advertise and sell the pledged securities within 10 days of being notified by the District that the District's bank has failed to pay deposited funds upon demand.

The \$75,405 held in the Edward D. Jones "Daily Passport Cash Trust" money market mutual fund account is protected up to \$500,000 by the Securities Investor Protection Corporation, a non-profit corporation created by Congress that receives revenues from the broker-dealers who are required by law to be SIPC members. SIPC provides protection in the event that Edward D. Jones fails financially and is unable to meet its obligations to its customers. SIPC protection does not cover any decreases in the net asset value of the shares of the money market mutual fund produced by market fluctuations. Accordingly, the District is at risk for any amounts held in the money market mutual fund. As of December 31, 1998, the Daily Passport Cash Trust's portfolio included about 41% of securities which were direct U.S. Treasury obligations and obligations of other U.S. Government agencies.

Note 3 - INVESTMENTS - (continued)

The Putnam U.S. Government Income Trust mutual fund invests only in U.S. Government Securities, such as; obligations issued directly by the U.S. Treasury and obligations issued or guaranteed by U.S. government agencies. There were no sales of this mutual fund during the year; however, \$3,779 of dividends earned were reinvested to buy more shares of the fund.

The District's mutual fund investments have not been assigned a category of credit risk similar to the other investments because this type of investment is not evidenced by securities that exist in physical or book entry form.

\$50,000 of Tennessee Valley Authority bonds were purchased on September 14, 1992 for 100% of their stated value. Interest is payable semi-annually on September 1st and March 1st. These bonds were redeemed on January 21, 1998 for \$52,000.

Note 4 - RECEIVABLES

The following is a summary of receivables at December 31, 1998:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Ad valorem taxes	\$116,658	\$ 43	\$116,701
Sales tax	23,589	-	23,589
Revenue sharing	<u>9,265</u>	<u>-</u>	<u>9,265</u>
Total receivables	<u>\$149,512</u>	<u>\$ 43</u>	<u>\$149,555</u>

The receivable for ad valorem taxes consists of actual collections of 1998 and prior year taxes that have been remitted to the District by the Livingston Parish Sheriff and Tax Collector through the end of February, 1999. The receivable for sales tax consists of taxes for December, 1998 remitted by the Livingston Parish School Board in January, 1999. The receivable for revenue sharing is the first one-third of 1998 revenue sharing, which was remitted by the Livingston Parish Sheriff and Tax Collector in January, 1999.

Management has deemed it unnecessary to set up an allowance for uncollectible accounts for these receivables because of the certainty of the receivable collections.

Note 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance</u> <u>01-01-97</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-98</u>
Equipment	\$200,009	\$119,165	\$ -	\$319,174
Vehicles	100,019	19,947	-	119,966
Building	76,714	-	-	76,714
Land	60,000	-	-	60,000
Furniture & Fixtures	645	7,094	-	7,739
Property leased under capital lease:				
Equipment	<u>43,441</u>	<u>-</u>	<u>-</u>	<u>43,441</u>
	\$480,828	\$146,206	\$ -	\$627,034
	=====	=====	=====	=====

Note 6 - RETIREMENT PLANS

Gravity Drainage District No. 1 employees participate in the Federal Social Security program, thus the District is required to remit an amount equal to the employee's contribution. The current rate of contributions is 7.65% of an employee's gross pay until the employee's annual gross pay equals \$68,400. The rate is reduced to 1.45% of an employee's gross pay for amounts which exceed \$68,400. Gravity Drainage District No. 1 does not guarantee any of the benefits granted by the Federal Social Security Program.

On January 1, 1996, Gravity Drainage District No. 1 adopted the Putnam Prototype Simplified Employee Pension Plan (SEP) for its employees. Under this defined contribution plan, individual retirement accounts with Putnam Investments are established for each eligible employee to which the District will make a contribution as determined on a year-to-year basis by the District's Board of Commissioners. Because contributions are made to individual retirement accounts, all contributions received by an employee are 100% vested. The employee may select between several investment options. Gravity Drainage District No. 1 does not guarantee the results of these investments. The District's Board of Commissioners voted to contribute 9.0% of eligible wages (\$117,759) for 1998. Accordingly, \$10,598 was contributed by the District for the eligible employees in 1998. Total gross payroll for all employees, including commissioner per diems, for the year was

Note 6 - RETIREMENT PLANS- (continued)

\$167,480. The employees eligible to participate in the plan cannot elect to contribute to the plan. All contributions must be made by the District.

Contributions cannot exceed the lessor of 15% of each eligible employee's compensation, excluding compensation in excess of \$160,000, or \$30,000. Eligible employees include anyone at least age 21 who has worked for the District three of the last five years, and received at least \$400 of wages during the year. Members of the Board of Commissioners are not eligible to participate in the SEP.

Gravity Drainage District No. 1 also helps to pay for retirement benefits of another retirement plan, the Parochial Employees Retirement System of Louisiana (system), a multiple-employer (cost sharing), public employees retirement system (PERS). Contributions to this system are derived by using one fourth of one percent of the taxes shown to be collectible by the tax rolls of Livingston Parish. The District's share of these contributions are deducted off the top of the ad valorem tax revenues to which the District is entitled. For 1998, \$5,798 of ad valorem tax revenues were used to pay these benefits. None of the employees of the District participate or benefit from the contributions to this retirement system.

Note 7 - CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of the changes in general long-term debt for the District for the year ended December 31, 1998:

<u>Description Of Debt</u>	<u>Balance 01-01-97</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12-31-98</u>
Public improvement bonds	\$160,000	\$ -	\$(40,000)	\$120,000
Capital lease obligation	<u>18,367</u>	<u>-</u>	<u>(9,274)</u>	<u>9,093</u>
Total	<u>\$178,367</u> =====	<u>\$ -</u> =====	<u>\$(49,274)</u> =====	<u>\$129,093</u> =====

Note 7 - CHANGES IN GENERAL LONG-TERM DEBT - (continued)

The long-term debt outstanding at December 31, 1998, consists of the unpaid principal of public improvement bonds which were originally issued for \$700,000 on March 1, 1971. The bonds mature from 1999 to 2001 at an interest rate of 5.9 percent per annum. At December 31, 1998, there were outstanding interest payments totaling \$10,620. The bonds are secured by an ad valorem tax on real property within Ward Two of Livingston Parish, Louisiana. The combined aggregate amounts of maturities and sinking fund requirements are as follows:

<u>Maturity</u>	<u>Bond Number</u>	<u>Rate</u>	<u>Yearly Payments</u>		<u>Total</u>	<u>Bonds Outstanding</u>
			<u>Principal</u>	<u>Interest</u>		
1999	581-620	5.9%	40,000	5,900	45,900	80,000
2000	621-660	5.9%	40,000	3,540	43,540	40,000
2001	661-700	5.9%	40,000	1,180	41,180	-
	Totals		\$120,000	\$ 10,620	\$130,620	
			=====	=====	=====	

Also included in the long-term debt account group is a capital lease obligation incurred during 1994 for the purchase of equipment. See Note 8 for details.

Note 8- LEASE COMMITMENTS

In November, 1994, the District entered into a capital lease agreement for the purchase of a backhoe loader. The lease requires monthly payments of \$856 until October, 1999. The lease terms provide that title to the equipment shall pass to the District immediately upon acceptance of the equipment by the District, subject to the Lessor's security interest. However, in the event funds are not appropriated or budgeted in any fiscal year, no further liability will be imposed upon the District by the Lessor, and the equipment can be returned by the District to the Lessor.

Note 8 - LEASE COMMITMENTS - (continued)

Future minimum payments under the capital lease are as follows:

Total minimum lease payments due in 1999	\$9,416
Less imputed interest at an annual percentage rate of 7.041%	<u>(323)</u>
Present value of net minimum lease payments	\$9,093 =====

Note 9 - CONTINGENCIES

The District is a defendant in a lawsuit whereby the plaintiff alleges property damages due to work performed by employees of the District. The District's management denies any responsibility or liability for alleged damages and intends to defend itself in court. The District's attorney believes that the District will ultimately prevail with little or no monetary liability. The case was initially set for trial in early May, 1999, but was postponed because the plaintiff amended his petition to include Scottsdale Insurance Company, which was the District's insurer at the time of the incident.

The District is a defendant in a lawsuit whereby a previous employee has alleged that he was unlawfully terminated and did not receive all his compensation for work performed and for unpaid vacation leave. The District's management and attorney believe this case has no merit and that the District will not have any liability in this matter. The District intends to vigorously defend this matter.

The District is one of several defendants named in a lawsuit wherein the plaintiffs claim that they suffered damages as a result of drainage problem concerning Hickory Ridge Drive. No estimate of any potential liability to the District can be made at this time but the District's management intends to vigorously defend this matter.

Note 10 - INCOME TAXES

Gravity Drainage District No. 1 is exempt from all Federal and Louisiana income taxes.

Note 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased commercial insurance to cover or reduce the risk of loss that might arise should one of these incidents occur. There have been no settlements in excess of insurance coverage in any of the past three years.

Note 12 - RELATED PARTY TRANSACTIONS

There were no related party transactions in 1998.

Note 13 - DESIGNATION OF FUNDS FOR GRAY'S CREEK DIVERSION PROJECT

The Board of Commissioners has designated \$110,683 for the Gray's Creek Diversion project. This project is necessary to alleviate flooding which frequently occurs in Livingston Parish, Louisiana. The State of Louisiana is expected to provide a grant for this project in the next two to three years and the District will be required to provide matching funds to receive the grant. Until the money is needed, management has invested the money in a certificate of deposit, which is included as an investment of the General Fund.

Note 14 - PER DIEM PAID BOARD MEMBERS

Each member of the Board of Commissioners receives a per diem allowance of \$60 for attending each regular or special meeting of the board, not to exceed 24 meetings in one calendar year. Per diems were paid to the commissioners for the year ended December 31, 1998, as follows:

<u>Commissioner</u>	<u>Number Of Meetings</u>	<u>Amount Received</u>
James Clark	17	1,020
Norman Fogg	17	1,020
David Gros	17	1,020
George Provost	17	1,020
Jessie Wheat	16	<u>960</u>
Total		\$5,040 =====

SUPPLEMENTARY FINANCIAL INFORMATION

DISCLOSURES ABOUT THE YEAR 2000 ISSUE

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

For the Year Ended December 31, 1998

OVERVIEW OF THE YEAR 2000 ISSUE AND ITS EFFECTS

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the District's ability to conduct normal business operations.

DESCRIPTION OF WORK COMPLETED OR TO BE COMPLETED TO MAKE
THE DISTRICT'S COMPUTER SYSTEM AND OTHER ELECTRONIC EQUIPMENT
CRITICAL TO CONDUCTING OPERATIONS YEAR 2000 COMPLIANT

The District's management has taken action to minimize any adverse effects which might result from the Year 2000 as follows.

GENERAL OPERATIONS

At this time there is no known compliance exposure which will impact the operation of any owned machinery, equipment, or vehicles used to clean and maintain drainage systems and canals in the drainage district. The District does not own any computer or electronic equipment. Therefore, the Year 2000 will not impact the District's ability to serve the general public using the tools that it has used to provide these services in the past.

PURCHASE OF GOODS AND SERVICES INTEGRAL
TO THE DISTRICT'S OPERATIONS

The District does not heavily rely on one vendor or a group of vendors to provide goods and services that the District needs to perform its routine functions. There are alternatives available whereby the District can acquire the goods and services it needs should the year 2000 prevent the usual vendors from meeting the District's needs.

PAYROLL

The District has recently purchased a time clock which will not be affected by the year 2000 change. Payroll processing is done by an outside accounting firm. The accounting firm's owner, who is the District's Administrative Secretary, has assured the District that the payroll software and computer system his firm uses were recently tested for Y2K compliance. Both the computer system and the payroll software successfully passed the Y2K validation tests. In the event any unexpected events occur which cause the software not to perform as expected, a manual calculation procedure is in place to ensure that payroll will be processed.

ACCOUNTING SYSTEMS

Financial statement preparation and basic bookkeeping services are performed at the Administrative Secretary's office monthly. Computers are used in this process and have been tested and found to be Y2K compliant. The accounting software currently used will be updated to a new version in June, 1999. The update is expected to also be Y2K compliant. However, manual procedures for processing accounting have been planned for by the Administrative Secretary in the event of power failure or other problems associated with the year 2000.

FINANCIAL RESOURCE COMMITMENTS

Management has not budgeted and does not expect to have to spend any significant amounts of money to change the District's normal operations to become year 2000 compliant. The computer systems used in processing the District's accounting data and to prepare payroll are owned by the Administrative Secretary's accounting firm. Other equipment items used are not date sensitive, therefore, they will not be affected by the date change.

DISCLAIMER

Despite all the efforts the District's management can and will take to assess, remediate, and validate through testing the problems associated with the year 2000, management makes no guarantee that all systems and equipment used by the District, its outside accounting firm, suppliers, or other third parties will be year 2000 compliant.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

For the Year Ended December 31, 1998

I have audited the financial statements of Gravity Drainage District No. 1 of Livingston Parish, Louisiana as of and for the year ended December 31, 1998, and have issued my report thereon dated March 25, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. My audit of financial statements as of December 31, 1998 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

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

Internal Control

Material Weaknesses ___ Yes X No
Reportable Conditions ___ Yes X No

Compliance

Compliance Material
to Financial Statements ___ Yes X No

- b. Federal Awards

There were not any federal awards. This section is not applicable.

- c. Identification of Major Programs:

This section is not applicable.

Section II - Financial Statements Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

This section is not applicable.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Gravity Drainage District No. 1 of Livingston Parish, Louisiana
A Component Unit of the Livingston Parish Council
Denham Springs, Louisiana

For the Year Ended December 31, 1998

**Section I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENTS**

No findings.

**Section II - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL
AWARDS**

No findings.

Section III - MANAGEMENT LETTER

No management letter was issued last year.