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SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)

Financial Statements
As of and For the 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 JUL 14 1998

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)**

**FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998**

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Luffey
Huffman
& Monroe

(A Professional Accounting Corporation)
CERTIFIED PUBLIC ACCOUNTANTS

John L. Luffey, MBA, CPA
Francis L. Huffman, CPA
L. Fred Monroe, CPA
Esther Alleberry, CPA
Carolyn A. Clarke, CPA

INDEPENDENT AUDITORS' REPORT

Board of Supervisors Southeast Sewerage District No. 3 Monroe, Louisiana

We have audited the component unit financial statements of **Southeast Sewerage District No. 3** (the District), a component unit of the Ouachita Parish Police Jury, as of and for the year ended December 31, 1998, as identified in the accompanying Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued a report dated May 20, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the component unit financial statements referred to in the first paragraph of this report taken as a whole. The budgetary information included on page 4 is presented for purposes of additional analysis and is not

**Board of Supervisors
Southeast Sewerage District No. 3
Monroe, Louisiana**

a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As further discussed in Note 7 to the financial statements, the District is in dispute with its provider of treatment services over the amount owed for such services, and the District is continuing to incur losses from operations of the sewerage system. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Ruffly, Huffman & Minnow (APAC)

May 20, 1999

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)**

**COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998**

	PROPRIETARY FUND TYPE - ENTERPRISE FUND	FIDUCIARY FUND TYPE - AGENCY FUND	TOTAL (MEMORANDUM ONLY)
	<u> </u>	<u> </u>	<u> </u>
ASSETS AND OTHER DEBITS			
Cash in bank (Note 2)	\$ 84,162	\$ 3,917	\$ 88,079
Interest Receivable	-	4,538	4,538
Receivable from Customers	10,278		10,278
Special Assessments Receivable - Current	-	12,546	12,546
Bond Issue Costs - Current	527	-	527
Property, Plant, and Equipment - (net of accumulated depreciation of \$672,754)	1,614,783	-	1,614,783
Special Assessments Receivable - Noncurrent	-	10,367	10,367
Bond Issue Costs - Noncurrent	527	-	527
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 1,710,278	\$ 31,369	\$ 1,741,646
 LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts Payable	\$ 82,821	\$ -	\$ 82,821
Due to Ouachita Parish Police Jury	-	14,085	14,085
Bonds Payable - Current	-	8,642	8,642
Bonds Payable - Noncurrent	-	8,642	8,642
Total Liabilities	<u>82,821</u>	<u>31,369</u>	<u>114,190</u>
Commitments and Contingencies (Note 7)	-	-	-
 Fund Equity:			
Contributed Capital (net of accumulated amortization)	1,649,932	-	1,649,932
Retained Deficit:			
Unreserved - undesignated	(22,475)	-	(22,475)
Total Fund Equity	<u>1,627,457</u>	<u>-</u>	<u>1,627,457</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,710,278	\$ 31,369	\$ 1,741,647

The accompanying notes are an integral part of this statement.

SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
PROPRIETARY FUND TYPE - ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED DEFICIT - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Operating Revenues			
Sewerage Fees	\$ 134,650	\$ 135,428	\$ 778
New Connection and Inspection Fees	2,070	3,000	930
Total Operating Income	136,720	138,428	1,708
Operating Expenses			
Advertising	200	-	200
Collection and Maintenance Contract	25,500	25,572	(72)
Depreciation	5,500	56,537	(51,037)
Inspection Costs	70	-	70
Insurance	2,181	2,181	-
Management Fees - OPPJ	4,985	4,985	-
Office Supplies	54	71	(17)
Professional Fees	1,985	1,985	-
Repairs and Maintenance	14,000	17,590	(3,590)
Sewer Tap Expense	1,217	1,216	1
Telephone	100	37	63
Treatment Fees	-	66,803	(66,803)
Utilities	4,850	3,962	888
Total Operating Expenses	60,642	180,939	(120,297)
Operating Income (Loss)	<u>76,078</u>	<u>(42,511)</u>	<u>(118,589)</u>
Nonoperating Revenues (Expenses)			
Interest Earned	1,100	2,168	1,068
Amortization of Bond Issue Cost	(527)	(1,127)	(600)
Total Nonoperating Revenues (Expenses)	573	1,041	468
Net Income (Loss)	76,651	(41,470)	(118,121)
Depreciation on Fixed Assets Acquired by Grants	-	54,011	54,011
Decrease in Retained Deficit	76,651	12,541	(64,110)
Retained Deficit at Beginning of Year	(35,016)	(35,016)	-
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ 41,635</u>	<u>\$ (22,475)</u>	<u>\$ (64,110)</u>

The accompanying notes are an integral part of this statement.

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998**

Cash Flows From Operating Activities	
Operating Loss	\$ (42,511)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operations:	
Depreciation and Amortization	55,936
Change in Current Assets and Current Liabilities:	
Accounts Receivable	500
Accounts Payable and Other	68,046
Total Adjustments	<u>124,482</u>
Net Cash Provided by Operating Activities	<u>81,971</u>
 Cash Flows From Investing Activities	
Interest Received	<u>2,168</u>
Net Cash Provided From Investing Activities	<u>2,168</u>
 Increase in Cash and Cash Equivalents	 84,139
 Cash and Cash Equivalents at Beginning of Year	 <u>23</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 84,162</u></u>

The accompanying notes are an integral part of this statement.

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. HISTORY

Southeast Sewerage District No. 3 (formerly known as Richwood Sewerage District No. 3 - the District) was created by the Ouachita Parish Police Jury by adoption of Ordinance No. 7253.

Construction of the system began in 1979 and was completed in 1983, with commencement of service in early 1984. Community Development Block Grant funds totaling \$2,160,424 were the primary source of funding.

B. REPORTING ENTITY

The Governmental Accounting Standards Board (GASB) is the accepted standard setting authority for generally accepted accounting principles as applied to governmental entities. GASB Statement Number 14, *The Financial Reporting Entity*, established criteria for determining which component units of government should be considered part of the primary government for financial reporting purposes.

The basic criteria for determining a component unit is accountability. Since the Police Jury appoints a voting majority of the board of commissioners of the District and has the ability to impose its will upon the District, the District is considered a component unit of the Police Jury, the primary governing body of the parish and the governmental body with oversight responsibility.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Police Jury, the general government services provided by that primary governmental unit or other component units that comprise the primary government reporting entity.

C. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types - enterprise funds are 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 liabilities associated with the operations of the proprietary fund are included on the balance sheet. The proprietary fund is reported in the accompanying financial

SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998

statements on the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned, and expenses are recognized at the time liabilities are incurred.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary fund type - Agency fund is accounted for using the modified accrual basis of accounting.

The District uses the following practices in recognizing revenues:

Customers are billed monthly for the services they received during the month. Total connections at December 31, 1998 are 511. The monthly rates charged for these services for 1998 are as follows:

Residential	\$21.00
Commercial	\$30.00

Interest on demand deposits is recognized monthly when it has been earned and credited to the fund's account.

Special assessments are generally recognized in the year they are due and payable by property owners in the district. Assessments which are paid early by property owners are recognized as revenue in the year received. Special assessments which are not currently due are recognized as a non-current receivable on the balance sheet of the fund to indicate that while they will be received in the future, they are not available to pay expenditures of the current period.

D. BUDGETS

Annual non-appropriated budgets are adopted by the District. Budgets are prepared in conformity with generally accepted accounting principles. Budget amounts included in the accompanying financial statements include the original adopted budget plus all amendments.

In November of each year, the District's Board of Supervisors approves the budget for the following year. This budget is made available for public inspection at this time. The budget is then submitted to the Ouachita Parish Police Jury for their approval at their 3rd Monday of November meeting. Operating appropriations, to the extent not expended, lapse at year end.

SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998

E. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and depreciated on the straight-line basis over their estimated useful lives. Depreciation on assets acquired by grants is included in depreciation on the income statement but is restored to an equity account. The grants are amortized through depreciation of the assets acquired with the proceeds.

The estimated useful lives of assets are as follows:

Equipment	4 to 5 Years
Lines, Mains and Manholes	40 Years
Lift Station	40 Years
Treatment Plant Connection	40 Years

F. STATEMENT OF CASH FLOWS

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

G. BOND ISSUE COSTS

Bond issue costs are capitalized and are amortized over ten years on a straight-line basis.

H. 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 at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

**SOUTHEAST SEWERAGE DISTRICT NO. 3
 (A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
 NOTES TO THE FINANCIAL STATEMENTS
 AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments consist of deposits with financial institutions. The District's investment policy is governed by state statute. Collateral is required for demand deposits, certificates of deposit, savings certificates of savings and loan associations and repurchase agreements at 100% of all amounts not covered by federal deposit insurance. At December 31, 1998 the carrying amount on the financial statements of the District's deposits is equal to \$88,079, all of which is covered by federal deposit insurance.

NOTE 3 - LONG TERM DEBT

Southeast Sewerage District No. 3 Series 1991 certificates were issued for the expansion of the District's service area. The certificates bear interest from 7.5% to 7.75% with annual principal payments of \$8,642 through January 15, 2001. The payment required for January, 1999 was paid prior to December 31 and is thus excluded from future maturities shown below. The certificates are payable from a special assessment on the property owners to which service is extended. Annual requirements to amortize certificates outstanding at December 31, 1998, including interest of \$1,944, are as follows:

Year Ended December 31,	
2000	\$ 9,938
2001	9,290
TOTAL	\$ <u>19,228</u>

NOTE 4 - BOARD OF SUPERVISORS

The Board has regular monthly meetings and calls special meetings as needed. The board members are paid \$50 per meeting, not to exceed \$600 during the year. Payments to supervisors were suspended in 1997 until the deficit in retained earnings is eliminated.

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE 5 - RISK FINANCING ACTIVITIES

The District is a participating member of the self-insurance program established and operated by the Ouachita Parish Police Jury (the Police Jury) to provide a means of self-funding potential insurance losses resulting from increased policy deductible amounts for property and vehicle fleet insurance, self-funding of worker's compensation and the absence of comprehensive liability coverage. The plan is administered by an independent third party. Because of the lack of sufficient funding, the District's insurance premiums under this program have been paid by the Police Jury's General Fund. Consistent with the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the Police Jury uses Internal Service Funds to account for risk financing activities. As of December 31, 1998, the Police Jury's internal service fund has approximately \$3,200,000 in assets.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The worldwide challenge facing organizations, commonly referred to as the Year 2000 (Y2K) issue, is the result of problems that may be encountered with date-related transactions on systems that have historically recognized years using two digits vs. four digits, e.g. 98 versus 1998. These systems will potentially recognize the "00" as the year 1900 instead of 2000. On the surface, the Y2K problem sounds simple enough; however, the implications of this problem are far reaching and could impact a full range of business services and activities.

The District has conducted a study of its own systems and operations. Based on this study, the District recognizes and plans to initiate a project to take all necessary and reasonable steps to get the mission critical systems and operations Y2K compliant in a timely manner. The project will include confirming the Y2K preparedness of significant third parties.

The timetable for the planned completion of the internal Y2K modification, is management's estimate. The estimate was based on numerous assumptions as to future events. There can be no guarantee that the estimate will prove accurate, and actual results could differ from those estimated if these assumptions prove inaccurate. Additionally, there can be no absolute guarantee that significant third parties will successfully and timely convert their systems.

**SOUTHEAST SEWERAGE DISTRICT NO. 3
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE 7 - FINANCIAL UNCERTAINTIES

The Ouachita Parish Police Jury and the City of Monroe are in dispute over the amount owed for sewerage treatment fees due from the District. The liability recorded by the District is reflected in Accounts Payable in the accompanying financial statements; however, the City of Monroe maintains the balance due is significantly higher than the amount recorded by the District. No payments have been made to the City of Monroe for treatment fees for the year ended December 31, 1998.

For the year ended December 31, 1998, the District had an increase in cash of approximately \$84,000 due primarily to nonpayment of the liability recorded to the City as discussed above. However, there are no other significant sources of cash flow, and the District incurred an operating loss of over \$42,000 for the year ended December 31, 1998.

SUPPLEMENTAL INFORMATION



Luffey
Huffman
& Monroe

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John L. Luffey, MBA, CPA
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**INDEPENDENT AUDITORS' 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**

**Board of Supervisors
Southeast Sewerage District No. 3
Monroe, Louisiana**

We have audited the component unit financial statements of **Southeast Sewerage District No. 3** (a component unit of the Ouachita Parish Police Jury – the District), as of December 31, 1998, and have issued our report thereon dated May 20, 1999. We conducted our audits 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 the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.

Compliance

As part of obtaining reasonable assurance about whether the District's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did note certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 20, 1999.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal

**Board of Supervisors
Southeast Sewerage District No. 3
Monroe, Louisiana**

control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be considered 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we did note a certain immaterial matter concerning the internal control over financial reporting that we have reported to management of the District in a separate letter dated May 20, 1999.

This report is intended for the information of management of the District, other entities granting funds to the District and the Legislative Auditor for the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Ruffly, Huffman & Kerwin (APAC)

May 20, 1999



Luffey
Huffman
& Monroe

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John L. Luffey, MBA, CPA
Francis I. Huffman, CPA
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**BOARD OF SUPERVISORS
SOUTHEAST SEWERAGE DISTRICT #3
Monroe, Louisiana**

In planning and performing our audit of the component unit financial statements of Southeast Sewerage District #3 (a component unit of the Ouachita Parish Police Jury – the District) for the year ended December 31, 1998, we considered its internal control in order to determine our auditing procedures for purposes of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control or overall compliance with laws and regulations.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and the overall environment for compliance with laws and regulations. This letter will summarize our comments and suggestions regarding those matters. This letter does not affect our report dated May 20, 1999 on the component unit financial statements of the District.

Recording of Receivables

Finding:

In our review of customer accounts receivable and the accompanying documentation, we noted a discrepancy in the amount billed and receivables recorded. Billing and collection for the District is done by M&N Utilities. On a monthly basis, a detail statement is sent to the Jury to indicate customers billed and collections from customers. The amount recorded as receivables at December 31, 1998 is the amount remitted to the District by M&N Utilities, not the amount billed to the customers on the December billing cycles. This practice has the potential to misstate accounts receivable and revenue and makes tracking of past due balances more difficult.

Recommendation:

We recommend that the Jury record the amounts billed by the third party as accounts receivable and revenue and periodically assess the recoverability of customers past due balances.

Management's Corrective Action Plan:

The District will record amounts billed by M-N Utilities as receivables and periodically review the unpaid charge register to determine the recoverability of past due accounts.

**BOARD OF SUPERVISORS
SOUTHEAST SEWERAGE DISTRICT #3
Monroe, Louisiana**

Board of Supervisor Meetings

Finding:

In our examination of the minutes of the District and conversation with the general counsel for the Ouachita Parish Police Jury, we noted the Board of Supervisors has not convened since February 1998. Although daily operations are managed by a third party, the Board of Supervisors is responsible for oversight of the District. Lack of regular oversight increases the opportunities for fiscal mismanagement.

Recommendation:

We recommend that, the Board of Supervisors convene at least quarterly to oversee the operations of the District to enhance the overall control environment and to minimize the risk of potential fiscal mismanagement.

Management's Corrective Action Plan:

Effective for the quarter beginning July 1, 1999, the Board of Commissioners of the Southeast Sewer District No. 3 will meet at least quarterly.

Composition of Governing Body

Finding:

During our audit we noted that the Board of Supervisors of the District had only four members. Per the Ouachita Parish Code Section 20-170.1, "the board of supervisors for the Richwood Sewerage District No. 3 shall consist of five (5) individual taxpayers residing within the said district.

Recommendation:

We recommend that the district fill this vacancy as soon as possible.

Management's Corrective Action Plan:

The Police Jury will endeavor to appoint one additional member to the Board of Commissioners to fill the current vacancy during the 90 day period beginning July 1, 1999.

Ruffley, Huffman + Monroe

May 20, 1999